

*The Department of the Treasury*  
ANNUAL  
PERFORMANCE REPORT



PART II



# INTRODUCTION

The Annual Performance Report (APR) is written by strategic objective and outcome. Included in the discussion is a summary of why the objective is important, and its associated outcomes. An overall performance statement is provided for each objective, along with charts and tables for cost, budget and performance. Performance chart percentages are calculated based on active performance measures for which targets were either exceeded, met, improved, or not met. Baseline and discontinued measures are not included in the calculations. While baseline measures are not counted in the calculation, they are shown as “met” in the performance tables in this section and in Part IV. Several measures were discontinued and/or base-lined this year as a result of the ongoing analysis of Treasury’s performance measures as they relate to outcomes.

A table of key performance measures includes actual data from the last four years, a performance rating for 2008, the fiscal year 2009 target, and a determination of the trends in both actual performance and targets. Trends are indicated by colored arrows, with red indicating an unfavorable direction, green a favorable direction, black indicating no change and the “B” for a measure that is being base-lined this fiscal year.

Results are analyzed for the factors affecting performance for the entire set of measures associated with the strategic objective and its associated outcomes. In some cases, underlying causes are not clear, and this is discussed. Because performance is a mixture of both policy and operations, it is difficult to assess the contribution of them together when trying to measure an outcome.

It is generally easier to assess the performance of established programs than it is policy initiatives. With some exceptions, determining whether or not a policy initiative is successful is subject to legislated outcome, success of government-wide implementation and analyst opinion. To overcome this problem, and to better assess policy performance, Treasury is currently developing measures that gauge the effectiveness of policy initiatives by their

traction (how efficiently and effectively policy offices worked with other government offices and/or the extent to which the office influences progress towards an outcome) and impact (whether or not the policy initiative had a positive outcome).

As one example, Treasury has developed a new measure to gauge the performance of the Office of Technical Assistance in providing economic and financial expertise to developing countries. Similar measures are being developed for Terrorism and Financial Intelligence. The process of developing these measures has deepened the understanding and connection between activities and desired outcomes, resulting in measures that the Department believes are much more useful to both performers and evaluators.

Each section of the APR concludes with a “Moving Forward” piece that describes future action to be taken. Actions could include closing performance gaps, developing new measures, or drafting new policies and/or regulations.

A note on cost: Cost is stated as “Performance Cost,” and represents imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. **Performance Cost** was used rather than Net Cost because it **more accurately represents the total cost to achieve a result or outcome**. For instance, while the Net Cost to manufacture coins and currency for non-appropriated bureaus such as the U.S. Mint and the Bureau of Engraving and Printing is zero because they are essentially self-funded, the real cost of operating these organizations is over \$2 billion once all imputed costs, depreciation, losses and other expenses are included. While performance cost is more than Net Cost, it is less than the Gross Cost reported on the Statement of Net Cost because it excludes accounts that do contribute to the cost of achieving performance for the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank. Fiscal year 2008 is the second year that Treasury has included this information.

# COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

## ACCURACY OF PERFORMANCE MEASURES

Measures are classified for accuracy as follows:

- *Reasonable Accuracy*: Judged to be sufficiently accurate for program management and performance reporting purposes (specified in Office of Management & Budget Circular A-11, Section 230-4(f))
- *Questionable or Unknown Accuracy*: Judged to be materially inadequate (specified in Office of Management & Budget Circular A-11, Section 230-4(f) as “materially inadequate”)

## PROCEDURES FOR CONDUCTING REVIEW OF THE DEPARTMENT'S PERFORMANCE MEASURE DATA

The Department of the Treasury's Office of Strategic Planning and Performance Management prepares the annual report on performance measures and monitors component-submitted performance information. Based on an audit finding in fiscal year 2006, it was determined that improvements to the internal control process for performance measures were needed. Improvements to the process included:

- All measures are now categorized by audit priority as high, medium, or low, based on the relationship to achieving the Department's goals
- A representative sample of measures are selected for review every fiscal quarter
- Supporting documentation from that sample is reviewed for accuracy, reliability and completeness
- All measure calculations are verified, data sources are validated, and comparisons are made to prior year results
- Information related to the measure audit is maintained in hard-copy form and can be reviewed at any time

As a result, performing this process will uncover any potential data or calculation error and will provide additional assurances on the integrity of the information and data presented in the annual Performance and Accountability Report.

## COMPLETENESS OF DATA

**Not Available:** There were no measures in fiscal year 2008 for which data was not available.

**Discontinued:** The following performance measures were discontinued in fiscal year 2008 and will not have data available for this Report. Explanations for why these measures were discontinued can be found in [Appendix E](#).

Bureau	Performance Measure
BPD	Percentage of Government Agency customer initiated transactions conducted online
DO	Audit opinion received on government-wide financial statements
DO	Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaties (BIT) negotiations underway or completed
DO	U.S. real Gross Domestic Product (GDP) growth rate
DO	U.S. unemployment rate
DO	Management cost per Treasury employee
FinCEN	Number of federal and state regulatory agencies with which FinCEN has conducted memoranda of understanding/information sharing agreements
IRS	BSM Project Cost Variance by Release/Subrelease
IRS	BSM Project Schedule Variance by Release/Subrelease
Mint	Cycle Time
Mint	Order Fulfillment
Mint	Total Losses
OTS	Difference between the inflation rate and the OTS assessment rate increase
Franchise Fund	Customer Satisfaction Index - Financial System, Consulting & Training
Franchise Fund	Customer Satisfaction Index - Consolidated/Integrated Administrative Management

Bureau	Performance Measure
TTB	Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)
TTB	Cumulative percentage of excise tax revenue audited over 3 years
TTB	Percentage of COLA approval applications processed within 9 calendar days of receipt
TTB	Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days
TTB	Percentage of total tax receipts collected electronically
TTB	Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of revenue)
TTB	Resources as a percentage of revenue
TTB	Unit cost to process an excise tax return
TTB	Unit cost to process a Wine Certificate of Label Approval

**Baseline:** The following measures established baseline values and targets in fiscal year 2008:

Bureau	Performance Measure
DO	Number of New Trade and Investment Negotiations Underway or Completed
DO	Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce US trade law and international agreements
DO	Changes that result from project engagement (impact)
DO	Scope and intensity of engagement (traction)
FinCEN	Percentage of customers satisfied with WebCBRS and secure outreach
FinCEN	Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements
FinCEN	Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system
IRS	Percent of BSM projects within +/- cost variance
IRS	Percent of BSM projects within +/- schedule variance
Mint	Conversion costs per 1,000 coin equivalents (percent deviation from target)
TTB	Amount of revenue collected per program dollar
TTB	National Revenue Center customer satisfaction survey
TTB	Average number of days to process an original permit application at the National Revenue Center
TTB	Percentage of instances where the utilization of the International Trade Database System identified importers without permits as a percentage of total permits on file
TTB	Percent of Voluntary Compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)

**Data Reliability:** Performance data presented in this report meets the standards for reliability set forth in Office of Management & Budget Circular A-11, Section 230-5(f). There is neither a refusal nor a marked reluctance by agency managers or government decision makers to use the data in carrying out their responsibilities.

# GUIDE TO THE ANNUAL PERFORMANCE REPORT

The Department of Treasury Annual Performance Report is organized by strategic goal, objective and outcome. Each goal contains the following information:

- Description of the goal
- For each *objective* associated with the goal:
  - Bureaus and policy offices involved in the achievement of the objective
  - Outcomes
  - Budget and performance cost trends
  - Performance to target
  - Performance cost by outcome
  - A list of program evaluations
  - An indication of the quality of the improvement plan for each program
- For each *outcome* associated with the objective:
  - A summary performance statement
  - Performance to target
  - A summary of actual performance trends
  - A table of key performance measures
  - Analysis of performance results
  - A moving forward section that describes future actions to address performance shortfalls, improved measurement techniques, and proposed regularity or legislation changes.



# STRATEGIC GOAL: EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

## STRATEGIC OBJECTIVE:

### Cash Resources are Available to Operate the Government

The Treasury Department manages the nation's finances by collecting money due to the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Sound fiscal management enables continual operation of essential government services and allows the Department to meet its financial obligations while minimizing borrowing costs. Accurate projections of the U.S. Government's cash requirements ensure that funds are available to cover federal payments on a daily basis. The ability of the Treasury to manage the nation's finances is essential to maintaining the stability and integrity of the financial system.

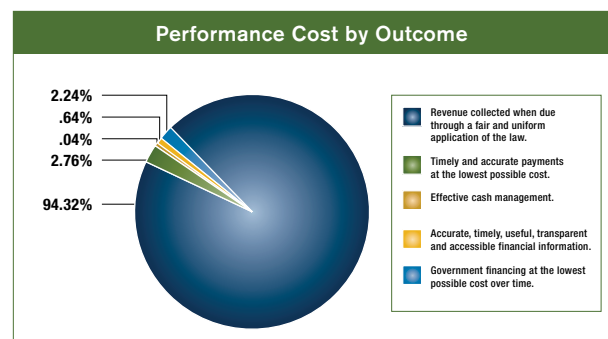
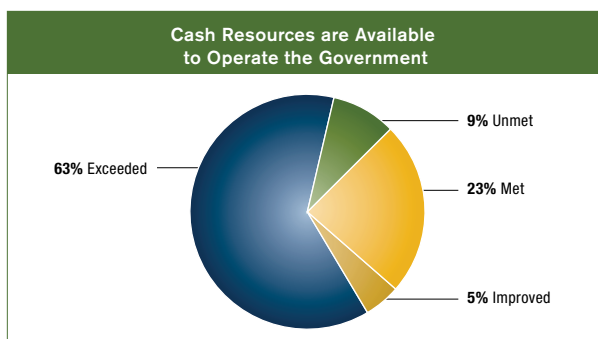
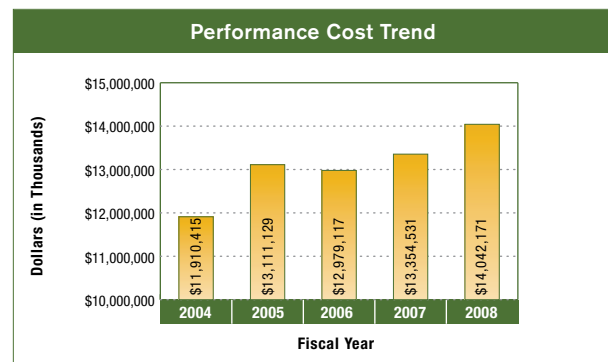
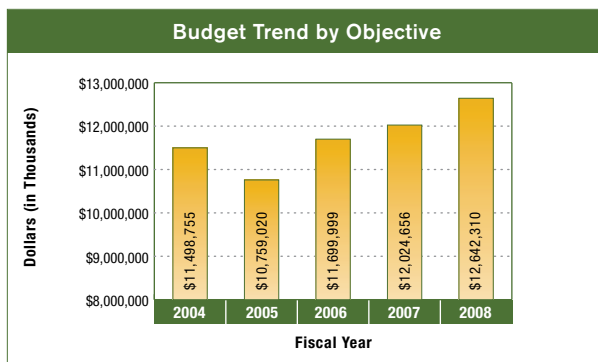
The bureaus and policy offices responsible for the achievement of this objective are:

- Alcohol and Tobacco Tax and Trade Bureau
- Bureau of the Public Debt

- Financial Management Service
- Internal Revenue Service
- The Office of Domestic Finance

The outcomes associated with this objective are:

- Revenue collected when due through a fair and uniform application of the law
- Timely and accurate payments at the lowest possible cost
- Government financing at the lowest possible cost over time
- Effective cash management
- Accurate, timely, useful, transparent and accessible financial information

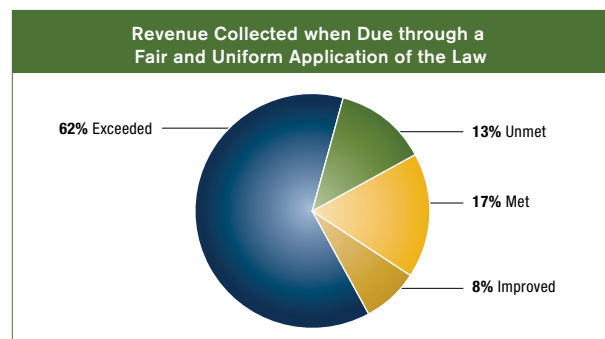


Program Assessment Rating Tool 2008				
Program	Bureau	Year Conducted	Rating	Current Improvement Plan
<i>Administering the Public Debt</i>	BPD	2003	Effective	▲
<i>Collections</i>	FMS	2004	Effective	▲
<i>Debt Collection</i>	FMS	2003	Effective	▲
<i>Government Wide Accounting &amp; Reporting</i>	FMS	2006	Moderately Effective	▲
<i>Payments</i>	FMS	2005	Effective	▲
<i>Criminal Investigation</i>	IRS	2005	Moderately Effective	▲
<i>Earned Income Tax Credit</i>	IRS	2002	Ineffective	▲
<i>Health Care Tax Credit Administration</i>	IRS	2006	Results Not Demonstrated	▲
<i>Examination</i>	IRS	2005	Moderately Effective	▲
<i>Retirement Savings Regulatory Program</i>	IRS	2006	Adequate	▲
<i>Submission Processing</i>	IRS	2005	Moderately Effective	▲
<i>Taxpayer Advocate Service</i>	IRS	2004	Moderately Effective	▲
<i>Taxpayer Service</i>	IRS	2004	Adequate	▲
<i>Tax Collection</i>	IRS	2008	Moderately Effective	▲
<i>Collect the Revenue Program</i>	TTB	2005	Effective	▲
Click on program name to obtain more information.				

## REVENUE COLLECTED WHEN DUE THROUGH A FAIR AND UNIFORM APPLICATION OF THE LAW

Based on the performance results, Treasury was generally successful in achieving revenue collected when due through a fair and uniform application of the law in fiscal year 2008.

### Fiscal Year 2008 Results



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	26	65%
Favorable downward trend	▼	1	3%
Unfavorable upward trend	▲	3	8%
Unfavorable downward trend	▼	5	13%
No change in trend, no effect	►	1	3%
No change in trend, favorable effect	►	0	0%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	4	10%
<b>TOTAL</b>		<b>40</b>	<b>100%</b>
Discontinued		8	



### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percentage collected electronically of total dollar amount of federal government receipts	FMS	79%	80%	101%	Exceeded	80%	▼	▲
Unit cost to process a federal revenue collection transaction	FMS	\$1.30	\$1.23*	105%	Exceeded	\$1.30	▼	▲
Amount of delinquent debt collected per \$1 spent	FMS	\$40.00	\$54.82* +	137%	Exceeded	\$43.00	▲	▲
Amount of delinquent debt collected through all available tools (\$ billions)	FMS	\$3.40	\$4.41*	130%	Exceeded	\$3.90	▲	▲
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral	FMS	95%	99%	104%	Exceeded	97%	▲	▲
Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)	TTB	Baseline	94%	100%	Met	92%	B	B
Customer contacts resolved per Staff year	IRS	8,000	12,634	158%	Exceeded	9,686	▲	▲
Customer Service Representative (CSR) level of service	IRS	82%	52.8%	64%	Unmet	77%	▼	▼
Examination Quality (LMSB) – Industry	IRS	88%	88%	100%	Met	88%	▲	▲
Percent of business returns processed electronically	IRS	20.8%	19.4%	93%	Improved	22.9%	▲	▲
Percent of individual returns processed electronically	IRS	61.8%	57.6%	93%	Improved	64%	▲	▲
Field collection embedded quality	IRS	86%	79%	92%	Unmet	80%	▼	▼
Field examination embedded quality	IRS	87%	86%	99%	Improved	87%	►	▲
Taxpayer self assistance rate	IRS	51.5%	66.8%	130%	Exceeded	64.2%	▲	▲
Refund timeliness - Individual (paper)	IRS	98.4%	99.1%	101%	Exceeded	98.4%	►	▲
*Indicates estimates for fiscal year 2008 data								
+ Data does not include offset collections from the stimulus package								

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

The table above is a sample of the measures associated with the achievement of the revenue collection outcome. Analysis of fiscal year 2008 performance is based on the best data available. Based on the full suite of measures relating to this outcome, Treasury exceeded 62 percent of its targets, met 17 percent, missed 13 percent, and improved eight percent. Three measures were not met, but performance improved over fiscal year 2007. Eight measures were discontinued in fiscal year 2008.

The IRS is the largest contributor to this outcome. In fiscal year 2008, IRS met or exceeded 75 percent of their 32 performance targets, up from 62 percent in fiscal year 2007. On average, all measures were within 6.5 percent of their targets for fiscal year 2008. Removing the three measures most affected by the implementation of the stimulus package, *Customer service representative level of service*, *Customer contacts per staff year*, and *Taxpayer self assistance rate*, the average difference to target would have been 3.0 percent. These results indicate the IRS is reasonably accurate in setting performance targets, allowing for better assessment of their achievement of program goals.

The FMS successfully achieved its performance measures and generally continues to set aggressive targets. In fiscal years 2005 and 2006 the FMS missed the target for the measure *Percentage collected electronically of total dollar amount of federal government receipts*; since then FMS has worked to promote the use of electronic technologies for revenue collection, successfully exceeding the target by one percent this year.

During fiscal year 2008, TTB discontinued five performance measures and established two new measures. The new measures reduce the need for estimation and use updated assumptions, offering the bureau better indicators to assess the performance of the *Collect the Revenue* program.

The activities associated with *Revenue collected when due through a fair and uniform application of the law* are taxpayer service, revenue processing, and enforcement.

## Taxpayer Service and Revenue Processing

### Internal Revenue Service

The IRS delivered another successful filing season in fiscal year 2008. The late enactment of the Alternative Minimum Tax legislation and the increased workload associated with the implementation of the Economic Stimulus Package posed unique challenges. Forms and systems changes and increased customer service volume coincided with normal preparations associated with delivering the filing season.

In fiscal year 2008, the total revenue collected by the IRS was \$2.74 trillion. Customer contacts per staff year

increased over 65 percent from fiscal year 2007, total telephone demand increased 90 percent (402 million versus 211 million), and the taxpayer self-assistance rates increased 35 percent. The significant increase in customer contacts stressed existing systems, resulting in a lower customer level of service score – 52.8 percent versus a target of 82 percent. Despite these challenges, the IRS processed more than 154.3 million individual returns, a 10 percent increase, issued 107.6 million refunds totaling \$369 billion (including \$94.3 billion through 116.2 million stimulus payments, EITC, and child tax credit refunds), and completed 52 million automated calls, a 123 percent increase. These accomplishments were realized while maintaining Account and Tax Law Accuracy rates of over 90 percent.

Additional highlights of the filing season include:

- Fielded 40.4 million telephone calls, an increase of 21 percent due to the large number of taxpayer inquiries regarding the economic stimulus
- Expanded partnerships with nonprofit and community organizations, offering almost 12,000 free tax preparation sites nationwide (volunteers at these sites prepared 3.5 million returns for low-income and elderly taxpayers, an increase of 33 percent)
- Expanded return preparation at the IRS Taxpayer Assistance Centers, assisting with over 575,000 returns, a 42 percent increase over last year

The economic stimulus substantially increased customer inquiries and filings. Over 347 million visits were made to IRS.gov in 2008, up 61.8 percent over 2007. Specifically, over 39 million taxpayers used the web application *Where's My Refund?* to check the status of their refunds and over 38.7 million taxpayers used the web application, *Where's my Stimulus Payment?* to check on the status of their payment. IRS processed 13.7 million more paper individual returns and 4.9 million more electronic returns in 2008 than 2007, largely due to filings necessary to qualify for a stimulus payment. The increase in paper filings reduced the *Percent of Individual Returns Processed Electronically* to 57.6 percent, 4.2 percentage points below the target of 61.8 percent. (Excluding the additional paper filings for stimulus payments, the percentage of individual returns filed electroni-

cally was 63 percent.) For fiscal year 2008, *Customer Service Representative Level of Service* was 52.8 percent, roughly 29 percentage points below the target of 82 percent, due to high call volumes associated with the stimulus.

Over 4.7 million tax returns were prepared and submitted through IRS Free File in fiscal year 2008, increasing 23 percent over the previous year. A recent survey showed 96 percent of those who used the program found it easy to use, 98 percent said they would recommend Free File, and 95 percent said they would use it again. Business returns filed electronically reached 19.4 percent, 1.4 percentage points below the target of 20.8 percent, and home computer filing increased to 26.8 million, a 20 percent increase over 2007. Tax professional use of E-File increased to 61.8 million returns, up nine percent over last year.

To manage costs associated with the Health Care Tax Credit, the IRS tracks program correspondence, registration, and program participation expenditures. For fiscal year 2008, the cumulative cost per taxpayer served was \$16.94, up 13.5 percent from \$14.93 in fiscal year 2007. The IRS associates this shortfall to a decrease in the number of taxpayers eligible for the credit and reduced taxpayer contact associated with better public understanding of the program.

IRS works to improve service and efficiency through modernization of its computer systems. In fiscal year 2008, the IRS Business System Modernization Program met cost and schedule estimates for most releases. Specific systems associated with the modernization include the Customer Account Data Engine (CADE), Modernized E-File program, and Account Management Services (AMS).

The 2008 CADE release was online before the filing season and processed 30.6 million returns, a substantial increase from the 2007 posting of 11.2 million returns. The system additionally issued 28.8 million refunds, totaling more than \$44.1 billion. Compared to the legacy system which updates weekly, CADE settles daily, allowing refunds to be processed on average five days faster, and updates taxpayer account information immediately for customer service personnel. The daily processing capabilities of CADE enabled economic stimulus payments to be made to taxpayers ahead of the published schedule.

Modernized e-File (MeF) provides E-Filing capability for large corporations, small businesses, partnerships, and non-profit organizations. MeF enables taxpayers to file all of their tax forms electronically, eliminating the need for the IRS to match paper documents to electronic returns. The system also permits more robust error checking and data validation before returns are processed, reducing the number of returns that need manual intervention and correction. In fiscal year 2008, 3.2 million corporate, non-profit, and partnership returns were accepted, a more than 50 percent increase over the previous year. The fifth release of this program went into production as planned early in 2008, including capabilities to process foreign corporate tax returns and Form 990N for small tax-exempt organizations.

The Accounts Management System (AMS) is designed to improve system performance by bridging the gap between new initiatives like CADE and existing legacy systems. Significantly, AMS allows on-demand, real-time access, validation, and update of taxpayer accounts across IRS systems.

### Alcohol and Tobacco Tax and Trade Bureau

TTB, through its *Collect the Revenue* program, collects excise taxes associated with the sale of alcohol, tobacco, firearms, and ammunition. In fiscal year 2008, TTB collected \$14.6 billion in federal taxes from 9,200 excise taxpayers. For every dollar expended by its program offices, TTB collected \$313 in revenue. TTB has had relative success in promoting voluntary compliance from industry members through its educational outreach efforts, as evidenced by the 94 percent compliance rate for large excise taxpayers in fiscal year 2008.

TTB targets non-compliant industry members utilizing a risk model developed with data received from audits and investigations, industry member submissions, and intelligence received from internal and external sources. In fiscal year 2008, TTB completed 179 audits, or 95 percent of its audit plan, collecting \$18.3 million in additional tax, penalties, and interest. TTB also initiated 285 revenue related investigations, many of which involved small producers, tobacco importers, and claims verification.

In fiscal year 2008, TTB processed \$287 million in drawback claims. Under current law, producers who use non-beverage alcohol in the manufacture of medicines, food products, flavors, extracts, perfume, or other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products. To assess drawback claims, the TTB Laboratory analyzed 13,572 submitted samples. TTB also analyzes beverage alcohol and tobacco product samples to assign or verify a tax classification. For this purpose, TTB analyzed 1,339 beverage alcohol samples associated with pre-import evaluation, the 5010 tax credit, and the alcohol beverage sampling program. Another 457 tobacco samples were analyzed to ensure products were appropriately classified for tax purposes, a 47 percent increase over the previous fiscal year.

### Financial Management Service

The FMS is responsible for managing the federal government's collection system. In fiscal year 2008, FMS collected a record \$3.195 trillion through a network of more than 9,000 financial institutions, 80 percent of which was collected electronically. FMS exceeded its collections from fiscal year 2007 by 2.6 percent. FMS is making significant progress towards achieving its long-term goal of having 90 percent of the dollar amount of all collections made electronically.

The Electronic Federal Tax Payment System (EFTPS) is a tax payment system that allows businesses and individuals to more conveniently make their federal tax payments electronically, supporting the initiative to increase electronic collections. In fiscal year 2008, more than 97.9 million tax payments were processed through EFTPS, which represented an 8.7 percent increase over the previous year. Dollar receipts were \$2.18 trillion, up 4.3 percent. *EFTPS Online*, a component of EFTPS, had total collections of \$439 billion on a volume of 30.6 million transactions, representing a 24.7 percent increase in dollar collections and 37.2 percent increase in transaction volume.

Several important programs to enhance electronic non-tax collections include: Pay.gov, Payment Check Conversion Over the Counter (PCC OTC), and Electronic Check Processing (ECP). Pay.gov is a system allowing individuals

and businesses to make non-tax payments to 117 federal agencies over the Internet. Since inception in 2005, it has processed approximately 38.5 million transactions valued at \$135.3 billion. In fiscal year 2008, Pay.gov collected \$48.7 billion, versus \$37.9 billion collected in fiscal year 2007. As one example, TTB expanded its E-Filing program to allow excise taxpayers to file and pay taxes and file monthly operational reports through Pay.gov; currently 39 percent of TTB's taxpayers are registered to use the system.

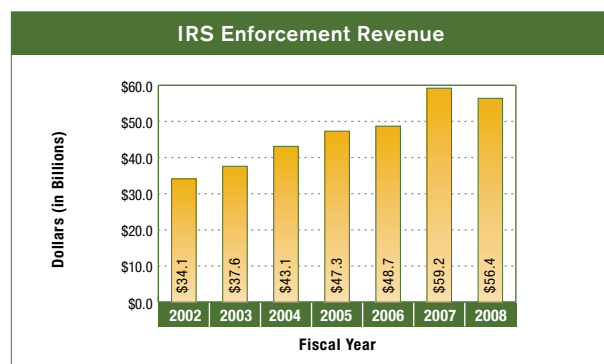
The PCC OTC program converts paper checks received at federal agency point of sale locations throughout the United States and overseas into electronic transactions and deposits funds into the Treasury. The PCC OTC fully automates the collection, reconciliation, research of returned checks, and reporting processes associated with federal agencies' over-the-counter check collections. The program leverages image technology to provide a complete electronic record of all check images and related financial data accessible via a web based archive. The PCC OTC has been implemented with approximately 41 agencies and collected \$11.7 billion during fiscal year 2008.

ECP is the system developed by the FMS to provide federal agencies with a centralized, secure paper check clearing process. The process improves availability of funds to the Treasury and allows improved cash management. ECP collected \$15.6 billion during fiscal year 2008.

In addition to managing these government collection systems, FMS is also responsible for the collection of delinquent government and child support debt. The *Debt Collection* program provides centralized debt collection management and operational services to federal program agencies and states as required by the *Debt Collection Improvement Act of 1996* and related legislation. In fiscal year 2008, FMS collected a record \$59.2 billion in delinquent debt, including debt offset by economic stimulus payments, providing \$2.83 billion in past due child support, \$2.29 billion in federal non-tax debt, \$378 million in state tax offsets, and \$400 million in tax levies.

## Enforcement

The IRS's enforcement activities are intended to encourage compliance with tax laws. In fiscal year 2008, the IRS collected \$56.4 billion through examination and collection enforcement activities; a decrease from \$59.2 billion in 2007. (Much of the decrease can be associated with two large settlements in 2007, which inflated figures for that year.) From 2002 to 2008, the IRS has increased revenue from enforcement programs by 65 percent, yielding \$56.4 billion in revenue in fiscal year 2008 versus a budget of \$10.9 billion. The IRS met or exceeded 78 percent of its enforcement program targets, due to efforts focusing on tax evasion by corporations, high income taxpayers, and other major violators of the tax code. Targeting high-risk categories has improved efficiency, reduced burdens on compliant taxpayers, and focused enforcement presence where it is most needed.



In fiscal year 2008, the IRS enhanced analytical capabilities in critical programs and implemented systems targeting high-risk cases. As a result, in fiscal year 2008, the IRS made improvements over fiscal year 2007 across a range of program areas. A small sample of these improvements include:

- Identified more than 337,000 potentially fraudulent returns and stopped more than \$1.5 billion in fraudulent claims
- Implemented an Industry Issue Focus process that places compliance issues into three tiers, identifying \$10.1 billion in additional taxable income not previously reported

- Automated Questionable Refund Program processes, producing a 16 percent labor savings and permitting the consolidation of 10 Fraud Detection Centers into three
- Collaborated with the SEC to resolve issues associated with stock option backdating, resulting in tax and penalty assessments of \$1.65 billion
- Increased Automated UnderReporter (AUR) contact closures by almost four percent and dollars collected through the AUR and Information Return processing by 22 percent
- Increased productivity in the AUR notice process facilitating selection of the most productive cases, increasing assessments from \$5.1 billion to \$6.4 billion
- Enhanced identification and predictability of productive assessments in the Correspondence Examination Program, contributing to a \$1.7 billion increase in assessments
- Increased high-income taxpayer audits by 16 percent and small business audits by three percent
- Audited over 13,000 large corporations with assets greater than \$10 million for the fourth consecutive year
- Increased collection case closures by 1.4 percent

The IRS continued to vigorously investigate egregious tax, money laundering, and other financial crimes which adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in significant abusive tax schemes, high-income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Highlights for the criminal investigation program include completing 4,044 criminal investigations, achieving a conviction rate of 92.3 percent, maintaining a Department of Justice acceptance rate of 93.6 percent, and obtaining 2,144 convictions.



In 2006, IRS revised its quality systems for examination and collections. The new system imposed stricter standards and increased the number of factors used in the evaluation process. Though embedded quality targets were not met in fiscal year 2008, quality scores for both examination and collection were on average within 96 percent of target. For fiscal year 2008, the score for the measure *the Field Collection Embedded Quality* was 79 percent; seven percentage points below the target of 86 percent. Efforts to reduce the number of aged cases in the quality inventory, coupled with the overall lower quality of the older cases, affected the cumulative score. For the measure *Field Examination Embedded Quality*, the score was 86 percent, missing the target by one percentage point. Action plans have been developed to update communication on quality issues and area “case quality improvement teams,” comprised of field managers and quality staff, have been formed to identify improvement opportunities. Improvements to job aids, continuation of quarterly reviews and an annual Quality Summit focusing on specific quality attributes in need of improvement will continue to focus bureau attention on examination.

### International tax enforcement

Abusive tax avoidance transactions can appear on many types of tax returns and range from complex, structured corporate transactions that utilize multiple entities, to individual scams and schemes. The use of offshore entities and accounts is also common and the organized promotion of tax shelters makes them available to all types of taxpayers. The variety, size, and nature of tax shelters require an organized approach to detection, deterrence, and enforcement so that abusive transactions can be identified and stopped.

The IRS continues to ensure taxpayers employed overseas comply with the tax laws and works with other countries to negotiate tax treaties. A recent compliance check of locally hired employees of foreign embassies, consulates, and international organizations found some may not have been properly reporting their income or were claiming incorrect deductions or credits related to that income. As a result, 2,100 individuals from 134 countries and international

organizations participated in a settlement resulting in assessments of \$14.6 million in tax and penalties. However, there are approximately 2,500 noncompliant taxpayers who did not elect to participate in the settlement initiative and are subject to further enforcement activity by the IRS.

The number of returns filed with the IRS with international tax issues is increasing dramatically each year, as is the complexity of the issues encountered on these returns. Actions taken in fiscal year 2008 to address international tax issues include:

- Improved alignment of resources to address international challenges
- Issued guidance to address offshore and cross-border compliance risks and expand relationships and collaboration with foreign tax administrators
- Expanded the Joint International Tax Shelter Information Centre, created by the IRS and the tax agencies of Britain, Canada, and Australia to identify and curb abusive cross-border transactions and schemes, with the addition of the Japanese National Tax Agency
- Opened a second tax office in London, England
- Reached an agreement, in conjunction with the Department of State, to open a tax office at the U.S. Embassy in Beijing, China in early fiscal year 2009

### Tax-exempt entity compliance with tax statutes

The IRS also faced ongoing challenges in assisting tax-exempt and government entities in complying with the complicated rules for maintaining special tax status. The IRS continues to ensure that charitable organizations are not used for non-charitable or illegal purposes, including financing terrorist activities. In fiscal year 2008, the IRS took the following actions:

- Launched an e-Postcard (Form 990N) for small tax-exempt organizations to electronically file an annual information notice; approximately 170,000 e-postcards were filed in fiscal year 2008
- Redesigned the form used by tax-exempt entities to report information about their operations



- Developed a pre-screening process to identify employee plan applications that have deficiencies, so taxpayers can correct items in a more timely fashion
- Increased small employer awareness of Pension Plan Correction Programs through new “fix-it” guides and educational workshops

## Conclusion

The Treasury Department, through its bureaus FMS, IRS, and TTB, was reasonably successful in achieving the outcome *Revenue collected when due through a fair and uniform application of the law*. Late enactment of Alternative Minimum Tax legislation and implementation of the economic stimulus payment package necessitated realignment of IRS and FMS resources to meet resulting demands.

In fiscal year 2008, 79 percent of the targets were met or exceeded. Reasonably aggressive targets for 2009 have been set by all three bureaus: 67 percent of fiscal year 2009 targets are set to increase. Twelve percent of the targets are flat; two of these did not meet their targets this year, indicating that it is not appropriate to set a higher target in 2009 until current levels can be achieved.

Despite missing some key performance targets for 2008, particularly those for *Customer Service Representative Level of Service*, *Examination Coverage – Business Corporations > \$10 Million*, and *Field Collection Embedded Quality*, the IRS generally met or exceeded their performance targets. In some cases measure targets were significantly exceeded, such as *Customer Contacts per Staff Year* and *Taxpayer Self Assistance Rate*, due largely to implementation of the stimulus package. On the whole, the IRS maintains a fairly effective planning and performance management process. Performance results for 2008 were on average within 3.0 percent of program target, if the three measures *Customer Service Representative Level of Service*, *Customer Contacts per Staff Year*, and *Taxpayer Self Assistance Rate* affected by the stimulus are excluded. (With these measures included the average difference to target was 6.7 percent.) Overall, the IRS exceeded 59 percent, met 16 percent, missed 16 percent, and improved in nine percent of measures. (Two measures were discontinued.) As the IRS revises its

strategic plan in fiscal year 2009, it is considering changes to performance measures to obtain a more balanced view of the organization, focusing on the areas of voluntary compliance, customer satisfaction, taxpayer perception, enforcement, modernization, and employee engagement.

The FMS exceeded 100 percent of its targets for fiscal year 2008. Eighty-three percent of targets showed a positive trend, suggesting target setting was reasonable. However, three measures — *Amount of delinquent debt collected per \$1 spent*, *Amount of delinquent debt collected through all available tools*, and *Dollar amount of collections transacted through Pay.gov, a government-wide collections portal* — were over 20 percent higher than target. With these three measures excluded, measure results for this outcome were within 3.5 percent of target.

In fiscal year 2008, TTB discontinued several measures and replaced them with new measures that more accurately track performance outcomes. These new measures that will provide greater clarity on bureau operations and permit greater insight into management effectiveness, when there is sufficient data to review.

## Moving Forward

FMS is implementing a comprehensive effort to streamline and modernize the processes and systems supporting Treasury’s collections and cash management programs. This effort will reduce the complexity of FMS’s collections program and improve the ability of FMS and other agencies to manage financial performance. FMS will reduce program complexity by eliminating redundant processes and systems and improve financial performance by consolidating information on revenue collections. One example of this effort is the Transaction Reporting System (TRS). Currently, FMS’s collection programs report information externally to many federal program agencies and internally to multiple Treasury Department systems. This use of multiple systems makes it difficult for agencies and Treasury to obtain all the financial information they need in timely fashion. TRS will change this model by serving as a single portal for reporting and retrieving information on revenue collections. This single access point will substantially reduce redundancies in the federal

government's collections reporting processes and facilitate information sharing.

As part of their strategic planning process, which is still underway, FMS is developing long-term strategic goals and measures supporting major FMS missions with a target date of 2018. Two of those measures correspond to the Treasury outcome *Revenue collected when due through a fair and uniform application of the law*. Long-term targets for these measures are as follows: 90 percent of the dollar amount of all collections to be made electronically, and \$8 billion dollars to be collected annually from delinquent debt referrals.

In addition to these initiatives, the FMS will continue to work with federal agencies on an automated system eliminating the paper checks and deposit ticket used by federal agencies in over-the-counter transactions, primarily through conversion to electronic transactions.

In fiscal year 2009, TTB expects modest improvements in the 94 percent voluntary compliance rate for large taxpayers, due to the large number of newly permitted taxpayers in 2008 and current widespread taxpayer use of Pay.gov. Going forward, efforts to promote voluntary compliance will focus on educational programs, such as the TTB Expo 2009, permitting staff to provide advanced instruction on reporting and payment of excise taxes to broad groups of users.

To improve efficiency, TTB is also exploring options to develop an automated permit application system, reducing the processing and turnaround time for permits. TTB has also developed an aggressive annual audit plan that incorporates a new risk model to take effect in fiscal year 2009. This risk model will be reviewed and updated annually to reduce costs. In fiscal year 2008, TTB found unpaid tax liabilities resulting from the industry's misuse of alcohol as fuel and unsupported exports. By continuing to focus on these areas, TTB can potentially detect and collect millions in additional tax revenue. In fiscal year 2009, TTB expects a slight decline in revenues, largely due to the erosion of

tobacco collections related to public policy surrounding tobacco products.

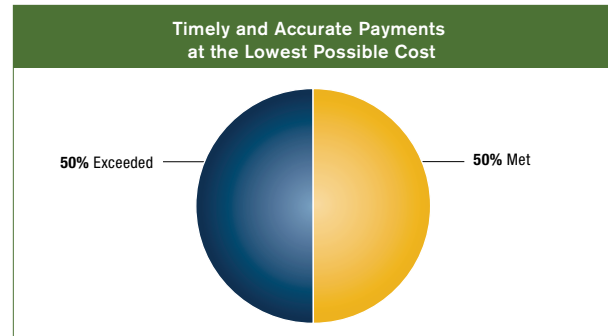
In fiscal year 2009, the IRS faces a variety of challenges; the most significant include legislative changes, the prevalence and complexity of abusive tax avoidance transactions, and an increase in international tax activities. In general, tax law changes have significant impact on the IRS, affecting the scope and effectiveness of its service, the cost to deliver service, and how taxpayers perceive the service provided. The IRS continues to find ways to effectively administer tax law changes in ways that minimize complexity, burden on taxpayers, and the cost of administering the tax code. The IRS expects the percentage of business filers to increase in the future due to increased marketing and expanded business E-File programs, including the acceptance of new forms and schedules. The IRS will continue to pursue additional mandates for all businesses to file electronically, similar to the one in place for large corporations.

As the flow of trade and capital moves more easily across borders, the global marketplace is continually expanding. Abusive tax avoidance transactions present formidable compliance challenges for IRS. Corporate tax planning is increasingly focused on minimizing the worldwide effective tax rate and organized promotion of shelters is making them available to all types of taxpayers. The variety, size and nature of these shelters require an organized approach to detection, deterrence and enforcement to minimize abuse. IRS is working to ensure tax preparers receive appropriate advice and counsel to fulfill their responsibilities associated with international tax management.

## TIMELY AND ACCURATE PAYMENTS AT THE LOWEST POSSIBLE COST

Based on the performance results, Treasury was successful in achieving timely and accurate payments at the lowest possible cost in fiscal year 2008.

### *Fiscal Year 2008 Results*



### *Summary of Actual Trends for the Prior Four Years*

Trend	Symbol	Count	%
Favorable upward trend	▲	2	50%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	1	25%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	▶	1	25%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
<b>TOTAL</b>		<b>4</b>	<b>100%</b>
Discontinued		1	

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percentage of paper check and electronic funds transfer (EFT) payments made accurately and on-time	FMS	100%	100%	100%	Met	100%	►	►
Percentage of Treasury payments and associated information made electronically	FMS	79%	79%	100%	Met	80%	▲	▲
Unit cost for federal government payments	FMS	\$0.40	\$0.39*	103%	Exceeded	\$0.40	▲	▲
* Indicates estimates for fiscal year 2008 data								

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

In fiscal year 2008, Treasury exceeded targets for 50 percent of its measures and met 50 percent for this outcome. One measure was discontinued in fiscal year 2008.

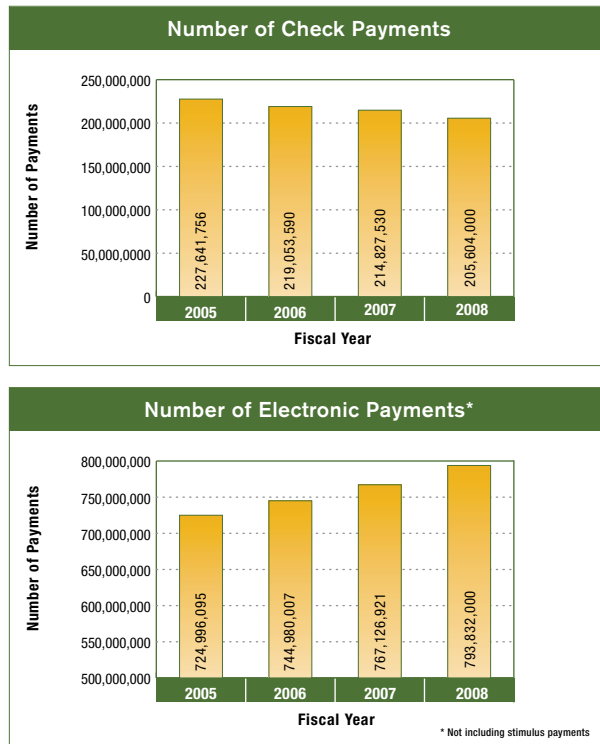
The third long-term goal for FMS is to have 90 percent of all payments made electronically by 2018. During fiscal year 2008, FMS continued to work towards this goal by expanding and marketing the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. This helped decrease the number of paper checks issued, the re-issuance of lost, stolen or misplaced checks, and minimize costs associated with postage.

On February 13, 2008 President Bush signed into law the *Economic Stimulus Act of 2008* providing stimulus payments to United States taxpayers, Social Security

beneficiaries, and disabled veterans or their survivors. FMS was responsible for disbursement of these payments, in addition to their standard responsibilities. As of October 3, 2008, FMS had issued a total of 116.2 million economic stimulus payments valued at \$94 billion. Over 42 million payments were issued by direct deposit, with the remaining 74.1 million issued by paper check. As part of managing disbursement, FMS offset 2.8 million stimulus payments for delinquent non-tax, state tax, and child support debts valued at \$1.5 billion.

Over the past several years, FMS has steadily processed fewer paper checks and processed more electronic payments. (Please see the accompanying charts.) The FMS nationwide campaign *Go Direct* is entering its fourth year. This campaign encourages current federal benefit check recipients to switch to direct deposit. *Go Direct* recently concluded an extremely successful third year, in which 901,054 conversions were attributed to the campaign. The current number of total conversions obtained since the inception of the campaign is over 2.2 million, cutting costs by \$184.7 million. In April 2008, the FMS implemented Direct Express, providing an electronic payment option for federal check recipients who do not have bank accounts. The FMS worked closely with the Social Security Administration and other organizations to develop and implement the program. To date, over 110,000, enrollments have been processed.





In fiscal year 2008, the FMS continued to make considerable efforts to incorporate new payment technologies. Issuance of a *Stored Value Card (SVC)*, similar to a credit or debit card, which uses an encrypted computer chip to process “electronic money” stored on the card, has reduced the amount of U.S. currency transported, circulated, and managed at military facilities throughout the world. For the organizations responsible for providing cash management functions at these locations, the SVC program improves financial accountability and reduces risk and workload. For those serving in the United States Armed Forces, the SVC program offers increased financial flexibility, security, and convenience. Since it was introduced in 1997, over 12.4 million electronic fund transfer transactions with a dollar value in excess of \$2 billion were processed through the SVC program.

The Payments Modernization (PAM) project is an effort to replace the current software applications that are used to disburse some \$1.5 trillion in payments. Ultimately, PAM will be a single application that will generate check, wire transfer, and Automated Clearing House payments for

federal program agencies. In addition to standardization, FMS is modernizing the technologies employed in the development of the system, using commercial software products where feasible. The project incorporates new and enhanced functionality to support improvements in the payment process.

Several factors affected the cost to make federal government payments over the past few years, including inflation, infrastructure spending, cost associated with initiatives performed within the Government-wide Accounting program, and the change in FMS’s cost allocation methodologies. Due to the inflation factor, the cost of consumables has increased in recent years. For example, the check stock cost increased by \$4.9 million and postage costs have increased by \$2.5 million in fiscal year 2007.

The *Unit cost for federal government payments* measure includes electronic payment, check payment, and other special payment mechanisms as well as the processes of reconciliation and claims. For fiscal year 2008 the actual was \$0.387, slightly below the previous year’s figure of \$0.392. Various programs to promote electronic payments and increase system efficiency were largely responsible for the reduction. FMS generally sets targets in line with inflation estimates and expected conversion rates from paper to electronic payments.

The FMS continues its efforts to expand the use of electronic payments and decrease check payment volume. In some cases, investments in electronic payments systems or events of the year, such as the wars in Iraq and Afghanistan or natural disasters, can increase costs. In fiscal year 2008, the expansion of the SVC program in Afghanistan and Iraq, supporting the military bases and ships at sea, increased short-term costs as systems were put in place. While the program saves the government money in the long run by eliminating coin, currency, money orders, and other labor-intensive payment mechanisms; initial necessary investments in infrastructure, such as setting up kiosks, can cause costs to increase.

Conclusion

In general Treasury, through the FMS, successfully achieved timely and accurate payments at the lowest possible cost, based on current measures and targets. However, the unit cost for federal government payments has been increasing since fiscal year 2005. As the acceptance of electronic payments continues to expand, increased efficiency should result in cost reductions. While cost measures provide some view of operations, adding measures for cycle time and quality management would provide additional information regarding Treasury’s ability to achieve this outcome.

Moving Forward

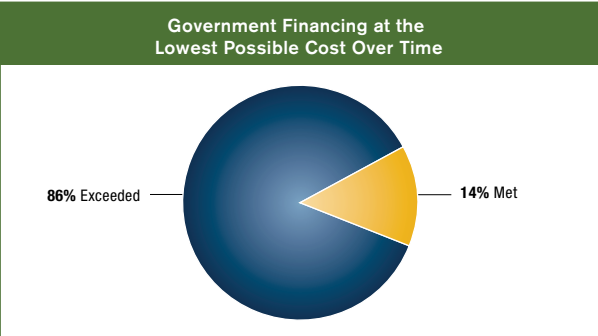
FMS will continue its efforts to have 90 percent of all payments made electronically by 2018. In fiscal year 2009 the FMS will expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. This will help decrease the number of paper checks issued and minimize costs associated with postage, the re-issuance of lost, stolen and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits. FMS will continue to implement the successful *GoDirect* campaign to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs.

FMS plans to continue to issue 100 percent of payments accurately and on-time. The Secure Payment System used by program agencies to certify checks, clearinghouses, or wire payments to recipients in a secure environment is critical for achieving performance goals.

GOVERNMENT FINANCING AT THE LOWEST POSSIBLE COST OVER TIME

Based on the performance results, Treasury was successful in achieving or exceeding government financing at the lowest possible cost over time in fiscal year 2008.

Fiscal Year 2008 Results



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	29%
Favorable downward trend	▼	2	29%
Unfavorable upward trend	▲	2	29%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	►	0	0%
No change in trend, favorable effect	►	1	14%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	0	0%
TOTAL		7	100%
Discontinued		1	



### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Cost per debt financing operation	BPD	\$263,306	\$237,636*	110%	Exceeded	\$275,610	▲	▲
Cost per federal funds investment transaction	BPD	\$75.55	\$57.81*	123%	Exceeded	\$69.11	▼	▼
Percent of auction results released in two minutes +/- 30 seconds	BPD	95%	100%	105%	Exceeded	95%	►	▲
Cost per TreasuryDirect assisted transaction	BPD	\$9.25	\$7.23*	122%	Exceeded	\$9.34	▲	▼
Cost per TreasuryDirect online transaction	BPD	\$4.34	\$3.76*	113%	Exceeded	\$4.34	▲	▲
Percentage of retail customer service transactions completed within 12 business days	BPD	90%	99.86%	111%	Exceeded	90%	►	▲

\* Indicates estimates for fiscal year 2008 data

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

Treasury exceeded the target for 86 percent of its measures and met 14 percent of measures relating to this outcome. One measure was discontinued.

In order to cost-effectively finance the government, Treasury must efficiently execute its securities auctions. By minimizing the time that bidders are exposed to the risk of adverse market movements, participants are likely to bid at more favorable rates and yields to the federal government. The BPD consistently releases securities auction results within two minutes, plus or minus 30 seconds, of the auction close.

Several important government financing initiatives were accomplished in 2008. In April 2008, the Department launched a new Treasury auction system and has since

successfully held over 125 announcements and auctions. This new system, created by BPD in conjunction with the primary dealer community and the Federal Reserve Bank of New York, offers the Treasury Department a secure and robust auction system. The contingency capabilities and flexibility of the system substantially exceed the previous system. Also in April 2008, the Department reduced the minimum bid at Treasury auctions from \$1000 to \$100, broadening the potential universe of investors in Treasury markets and increasing access to retail investors. Additionally, in June 2008, the Office of Debt Management successfully resumed the issuance of the 52-week Treasury bill on a monthly basis.

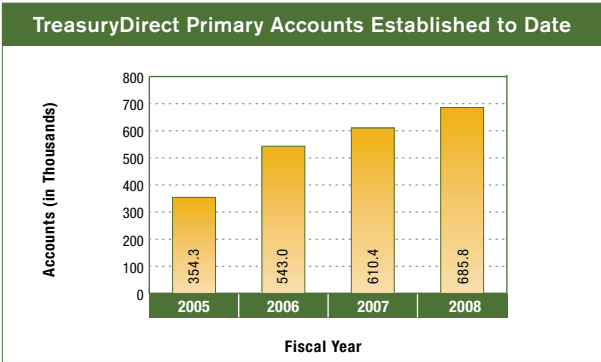
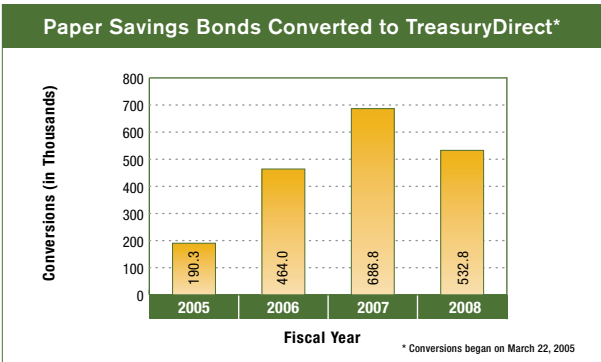
### Conclusion

In fiscal year 2008 Treasury successfully met or exceeded the targets that were established to demonstrate the achievement of financing the government at the lowest possible cost over time; however the costs associated with this outcome continue to increase. TreasuryDirect's costs and the costs associated with debt financing operations have risen since 2006. The primary sources of these increases are volume sensitivity to movement in market rates, implementation of new auction systems, and inflation. While cost measures provide some view of operations, adding measures for cycle time and quality management

would provide additional information regarding Treasury’s ability to achieve this outcome.

Moving Forward

It is essential that BPD maintain comprehensive contingency plans and strong security controls to manage government borrowing activities. In the Wholesale Securities Services area, BPD is working with primary dealers to ensure that at least 90 percent of dealers can participate in Treasury auctions from contingency locations by fiscal year 2012. Operational testing of these contingency plans will ensure the overall readiness of the system and ensure the continuity of the Treasury auction process. BPD will continue to look for additional ways to improve its operations.



Although a date has not been set for the withdrawal of paper bonds from sale, BPD is working to issue all Treasury securities electronically. For retail securities, BPD is encouraging investors to utilize the TreasuryDirect system. The primary challenge in this effort is communicating to customers the benefits of purchasing securities and managing their holdings online in TreasuryDirect.

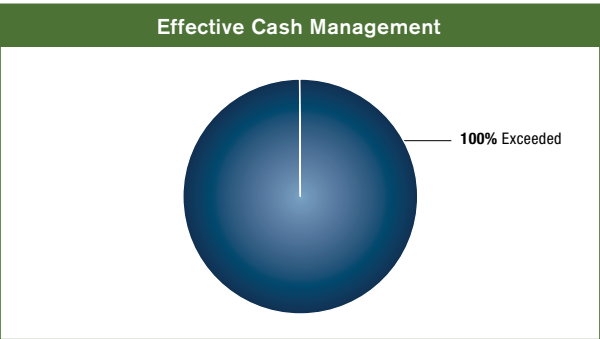
BPD will continue to enhance the system through security upgrades and new registration options for trust, estate, and organizational accounts.

Treasury still needs to develop an improved measure for evaluating Treasury’s progress in minimizing the cost of financing the government over time.

EFFECTIVE CASH MANAGEMENT

Based on the performance results, Treasury was successful in achieving effective cash management in fiscal year 2008.

Fiscal Year 2008 Results



Summary of Actual Trends for the Prior Four Years

Favorable downward trend	▼	1	100%
Unfavorable downward trend	▼	0	0%
No change in trend, favorable effect	►	0	0%
Baseline	B	0	0%
Discontinued		0	

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Variance between estimated and actual receipts (annual forecast)	DO	5%	4.6%	108%	Exceeded	5%	►	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

The Department of the Treasury manages the government's central operating account and cash position, supporting gross annual transactions totaling \$15 trillion. The Department's Office of Fiscal Projections provides forecasts of federal receipts, outlays, and debt transactions to ensure that funds are available on a daily basis to cover federal payments. By increasing the accuracy of fiscal projections, the Department is able to maximize earnings on investments of operating cash and minimize borrowing costs, having a direct and material impact on the government's net operating cost.

Treasury invests its excess cash, or cash in excess of Treasury's Federal Reserve account balance, through three primary mechanisms:

- The legacy Treasury Tax and Loan (TT&L) program
- The Term Investment Option (TIO) program
- The Treasury Reverse Repurchase Agreement (Repo) program

During fiscal year 2008, Treasury invested 23 percent of net investable funds in the legacy TT&L program, 71

percent in the TIO program, and six percent in the Repo program. The following table highlights a comparison against previous years:

Treasury's Cash Balance FY 2005–2008 % Net Investable Balance				
	TT&L	TIO	Repo	Net Invested Funds
FY 2005	38%	62%	0%	100%
FY 2006	34%	60%	6%	100%
FY 2007	23%	68%	9%	100%
FY 2008	23%	71%	6%	100%

Treasury earned \$603 million in interest on funds invested through TT&L, TIO, and Repo in fiscal year 2008, compared to \$1,171 million in fiscal year 2007. The decrease in earnings is primarily a result of two factors, a 25 percent decrease in the average investment balances between fiscal year 2007 (\$24.0 billion) and fiscal year 2008 (\$17.8 billion); and a 44 percent reduction in the Federal Funds rate between fiscal year 2007 (5.2 percent) and fiscal year 2008 (2.9 percent).

Treasury's rate of return on cash investments is generally measured against the TT&L rate, which is equal to the Federal Funds rate less 25 basis points. In fiscal year 2008, Treasury's average rate of return on funds invested through the TT&L, TIO, and Repo programs was the TT&L rate plus 17 basis points (or the average effective Federal Funds rate less 8 basis points). This was an improvement of 47 percent over fiscal year 2007, when Treasury earned an average of 11 basis points above the TT&L rate.

To analyze the effectiveness of the cash management techniques employed, the Department measures the variance between actual and projected receipts. The Office of Fiscal Projections successfully exceeded its target despite several unique events that introduced uncertainty into forecasting models, including the economic stimulus package, stress in global credit markets, restructuring of the Federal Reserve's balance sheet, and a spike in deposit insurance outlays, in addition to the broader economic slowdown impacting tax receipts. In fiscal year 2008 the revenue forecast was 4.6 percent, better than the target of five percent, but failing to improve over the previous year's 2.1 percent. Actual receipts were below forecasted levels due to a reduction in tax payments made by individuals coupled with a lower than anticipated Unemployment Trust Fund Deposit made by states, which may relate to the current weak employment reports. Additionally, Federal Reserve Bank earnings also came in lower than forecasted.

In fiscal year 2008, the Department's Office of the Fiscal Assistant Secretary introduced new policies to improve the management of investment derived from Treasury's term investments with commercial financial institutions. The rules for establishing the term investment offering amounts, interest rates, and counterparty limits were revised, resulting in additional earnings on operating cash balances of \$36.8 million. Furthermore, the Department expanded its repurchase agreement investment program, by adding a new bank counterparty to the program and expanding back office capacity, resulting in additional repurchase earnings of \$2.2 million. In addition to these operational improvements, the Treasury Department proposed legislation to broaden its statutory authority to allow investments of operating cash with additional classes of counterparties.

The current financial climate is causing consideration of new variables and factors in establishing investment mix. Shortage of capacity in one or more of the investment tools is a result of banks either not having an interest in holding Treasury funds at expected rates or not having collateral acceptable to Treasury to pledge in support of investments received. A lack of investment capacity in one of the tools removes that tool from the mix, forcing consideration of other investment alternatives. A further consideration is that the Federal Reserve recently began paying interest on bank reserves that financial institutions keep on deposit in the Federal Reserve System. This is now an implicit cost that Treasury must consider when determining its daily investment strategy.

## Conclusion

Effective management of daily cash position and minimizing borrowing costs over time is essential to ensure that government activities and services continue uninterrupted. Based on the one measure and information provided, Treasury is successfully achieving this outcome. However, one measure is an insufficient indicator of the Department's success or failure in this area. The Department will need to consider development of additional measures that provide a more comprehensive assessment of Treasury's cash management operations.

## Moving Forward

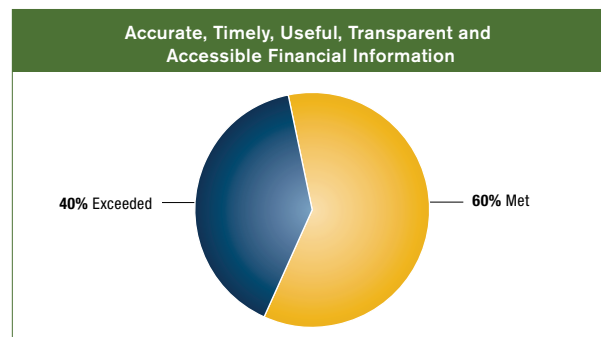
Treasury anticipates that forecasting government receipts and outlays in fiscal year 2009 will continue to be challenging. Volatility caused by changing economic conditions, new programs and initiatives enacted by Congress to address systemic risks, and market concerns will have to be addressed in forecasting models. The Department will continue to maintain a five percent target variance for forecasts of receipts.



## ACCURATE, TIMELY, USEFUL, TRANSPARENT AND ACCESSIBLE FINANCIAL INFORMATION

Based on the performance results, Treasury was successful in providing accurate, timely, useful, transparent and accessible financial information in fiscal year 2008.

### *Fiscal Year 2008 Results*



### *Summary of Actual Trends for the Prior Four Years*

Trend	Symbol	Count	%
Favorable upward trend	▲	0	0%
Favorable downward trend	▼	1	20%
Unfavorable upward trend	▲	1	20%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	►	0	0%
No change in trend, favorable effect	►	3	60%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	0	0%
<b>TOTAL</b>		<b>5</b>	<b>100%</b>
Discontinued		1	

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Cost per summary debt accounting transaction	BPD	\$9.91	\$8.29*	116%	Exceeded	\$10.01	▼	▼
Release federal government-wide statements on time	DO	Met	Met*	100%	Met	Met	►	►
Percentage of government-wide accounting reports issued accurately	FMS	100%	100%	100%	Met	100%	►	►
Percentage of government-wide accounting reports issued timely	FMS	100%	100%	100%	Met	100%	►	►
Unit cost to manage \$1 million of cash flow	FMS	\$11.72	\$9.21*	121%	Exceeded	\$13.39	▲	▲
* Indicates estimates for fiscal year 2008 data								

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

Treasury exceeded targets for 40 percent of its measures, met 60 percent, and discontinued one measure relating to the achievement of this outcome. In fiscal year 2008 a Market Room was established to monitor global financial markets and leverage the expertise of individuals across the Department. The Market Room was established during a critical period and has been an invaluable resource for Treasury and other agencies in Washington, DC. The Office of Debt Management also initiated the design of a new, transparent risk management system with assistance from the BPD, FMS, and the Federal Reserve Bank of New York. Funding and design plans for the new Treasury Debt Management System are now in place, with expected phased deployment of the system beginning in fiscal year 2009.

FMS's Government-wide Accounting and Reporting program manages the federal government's accounts through the central accounting and reporting system. In fiscal year 2008, FMS met the 45-day reporting deadline for issuance of the fiscal year 2007 *Consolidated Financial Report of the United States Government*, as it has in prior years. This report presents a picture of government-wide finances that complements traditional federal government budget information, and is critical to a fully informed budget process. FMS, in coordination with the Office of Management and Budget (OMB)<sup>1</sup>, continues to make improvements to its policies, procedures, information systems, and internal controls associated with compiling and issuing the *Consolidated Financial Report of the United States Government*. These improvements resulted in the elimination of 35 of 81 open Government Accountability Office (GAO) findings and recommendations in the fiscal year 2007 Audit Report. Additionally, ten new recommendations were reported. FMS, in coordination with OMB and the requisite federal agencies, will continue to work to resolve these preparation issues.

<sup>1</sup> The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required annually to submit financial statements for the U.S. government to the President and Congress. The *Government Management Reform Act of 1994* has required such reporting, covering the Executive branch, starting with financial statements prepared for fiscal year 1997. 31 U.S.C. 331(e).



Treasury continues to release the *Monthly Treasury Statement*, the monthly public source of budgetary results, on the eighth business day of each month. This release schedule allows Treasury to provide agency financial managers complete and accurate financial data on a timely basis for use in preparation of their financial statements. FMS also performs the accounting for the federal government's operating cash, and provides critical support related to government-wide cash forecasting and cash management functions.

One of FMS' major initiatives is to modernize long standing federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data. This initiative, the Government-wide Accounting Modernization program, will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. It will also improve the budgetary information being collected from the agencies at the transaction level.

For the measure *Unit cost to manage \$1 million of cash flow*, costs for fiscal year 2008 were \$9.21. The result was substantially lower than the result for fiscal year 2007 (\$10.36) although still higher than the result for fiscal year 2006 (\$8.67). Cash flow and costs associated with government-wide accounting are expected to fluctuate in fiscal year 2009.

## Conclusion

For fiscal year 2008 Treasury was successful in providing accurate, timely, useful, transparent and accessible financial information. Although the measure *Unit cost to manage \$1 million dollars of cash flow* exceeded its target in 2008, over time the cost to manage \$1 million has been increasing, resulting in an unfavorable actual trend. For the remaining measures, target and actual trends have both been positive. The one caveat relates to the measure *Cost per summary debt accounting transaction*, where long-term target trends remain favorable, even though year-over-year changes show continued increase in costs. This is due largely to steps

taken in earlier years to improve cost-efficiency. In general, cost measures offer a limited view of operations – addition of cycle time and quality measures would offer additional information regarding Treasury's ability to successfully provide financial information.

## Moving Forward

Going forward FMS plans to continue its efforts to improve efficiencies and lower the costs associated with managing the nation's money. In fiscal year 2009, FMS will continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. This initiative integrates budget and financial reports from federal program agencies. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS. FIRST is designed to provide authoritative information, contained in Treasury's central accounting system, to the agencies to facilitate the reconciliation process for specific intra-governmental transactions.

FMS will continue to update and improve the government-wide accounting processes to provide more useful and reliable financial information. FMS is building and implementing a system to improve the exchange of financial information between FMS, federal program agencies, the Office of Management and Budget, and the banking community. Once the Government-wide Accounting Modernization program is completed it will replace current government-wide accounting functions and processes that are both internal and external to FMS. Additionally, it will improve the reliability, usefulness, and timeliness of the government's financial information, provide better access to information, and will eliminate duplicate reporting and reconciliation burdens for agencies.

A new measure will be developed in fiscal year 2009 to replace the discontinued measure. *Audit opinion on government-wide financial statements*.

# STRATEGIC GOAL: U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

## STRATEGIC OBJECTIVE:

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad

Economic growth stimulates economic opportunity, mobility, and security for Americans and others around the world. Promoting the development of new markets in the U.S. ensures that all Americans benefit from economic growth. The expansion of underdeveloped economies abroad opens markets, enhances regional stability, reduces the spread of disease, creates opportunities for profitable trade, and demonstrates democracy in action. Treasury promotes economic growth through direct and indirect regulation of financial markets; regulation of national banks and thrifts; implementation of policies promoting international trade, investment and economic security; programs encouraging investment in economically distressed communities; and policy initiatives directed at expanding the capacity of financial institutions to provide affordable credit, capital and financial services to the American people.

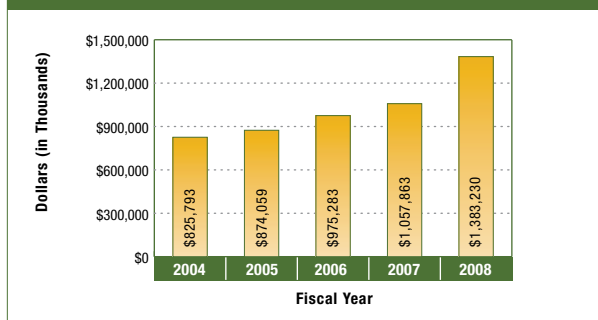
The bureaus and offices responsible for achievement of this objective are:

- Alcohol and Tobacco Tax and Trade Bureau
- Community Development Financial Institutions Fund
- The Office of the Comptroller of the Currency
- The Office of Domestic Finance
- The Office of Economic Policy
- The Office of International Affairs
- The Office of Thrift Supervision

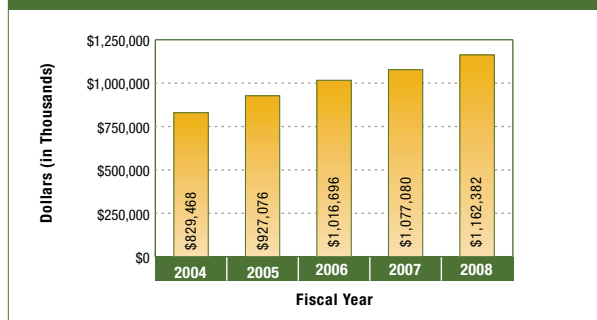
The outcomes associated with this objective are:

- Strong U.S. economic competitiveness
- Competitive capital markets
- Free trade and investment
- Prevented or mitigated financial and economic crises
- Decreased gap in global standard of living

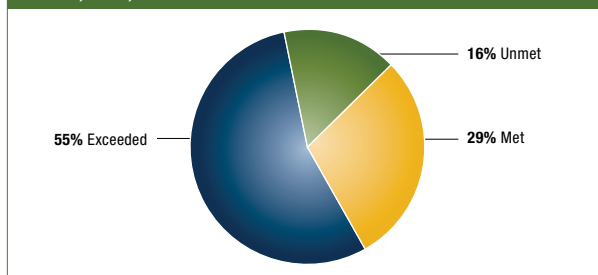
Budget Trend by Objective



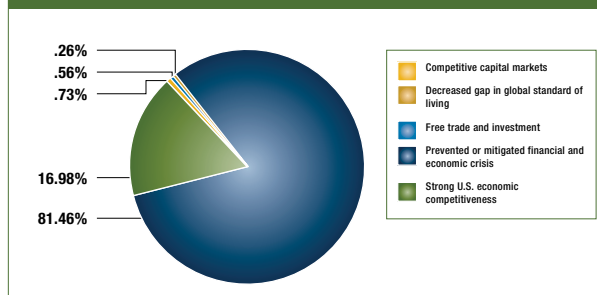
Performance Cost Trend



Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad



Performance Cost by Outcome



Program Assessment Rating Tool 2008				
Program	Bureau	Year Conducted	Rating	Current Improvement Plan
<i>Bank Enterprise Award</i>	CDFI	2002	Results Not Demonstrated	▲
<i>Financial and Technical Assistance</i>	CDFI	2004	Adequate	▲
<i>New Markets Tax Credit</i>	CDFI	2004	Adequate	▲
<i>African Development Fund</i>	DO	2003	Results Not Demonstrated	▼
<i>Asian Development Fund</i>	DO	2005	Results Not Demonstrated	▼
<i>Debt Restructuring for Heavily Indebted Poor Countries</i>	DO	2007	Moderately Effective	▲
<i>Global Environment Facility</i>	DO	2004	Results Not Demonstrated	▲
<i>International Development Association</i>	DO	2002	Adequate	▲
<i>Office of Technical Assistance</i>	DO	2003	Adequate	▲
<i>Tropical Forest Conservation Act</i>	DO	2007	Moderately Effective	▲
<i>National Bank Supervision</i>	OCC	2002	Effective	▼
<i>Thrift Institution and Savings Association Supervision</i>	OTS	2002	Effective	▼
<i>Protect the Public Program</i>	TTB	2002	Adequate	▲
Click on program name to obtain more information.				

## Assessing the Effectiveness of Economic Policy

The Department's economic policy efforts can be separated into two categories: policy initiatives and established programs. The differences between them have largely to do with timing in the policy process. Policy initiatives generally include efforts to influence economic growth and financial market activity through the development of new legislation or government-wide policy. Substantial analytical effort is used to understand a problem, develop alternatives and ultimately propose a legislative or administrative solution. Final legislation or administrative decision is then implemented by Treasury or other government agencies. Conversely, established programs are typically legislated to operate within an existing office, with specific objectives and defined management scope. These offices generally manage government efforts related to a designated problem, within clearly defined missions and goals.

Given the differences in scope and mission, it is generally easier to assess the performance of established programs than policy initiatives. With some exceptions, determining whether or not a policy initiative is successful is

subject to legislated outcome, success of government-wide implementation, the test of time, and analyst opinion. To overcome this problem, and to better assess policy performance, Treasury is currently developing measures which gauge the effectiveness of policy initiatives by their traction (how efficiently and effectively policy offices worked with other government offices and/or the extent to which the office influences progress towards an outcome) and impact (whether or not the policy initiative had a positive outcome). As one example, Treasury has developed a new measure for fiscal year 2008 to gauge the Office of Technical Assistance's (OTA) performance in providing assistance to developing countries, assessing the ability of the office to establish good working relationships with client countries and influence positive policy outcomes. A measure assessing the performance of economic policy development is currently being designed for the Office of Economic Policy utilizing a similar approach, with completion expected for fiscal year 2009. Currently, most performance measures evaluating Treasury's management of economic affairs correspond to established programs and not to policy initiatives. Given this reality, analysis of

this objective is divided into two components: one reviewing policy initiatives more qualitatively, the other analyzing established programs more quantitatively.

### Assessing the Performance of Economic Policy Initiatives

Policy performance in addressing U.S. economic challenges was mixed. Turmoil in financial markets, the ongoing housing correction, and record high energy prices had substantial impact on economic performance in fiscal year 2008. Treasury, working with other federal agencies, state governments, other national governments, international organizations, and various private sector participants, took exceptional steps to address these challenges and work to prevent and mitigate financial and economic crises. Many of these efforts were successful; some were less successful than others. The key economic policy initiatives the Department engaged in, discussed in detail in the Management Discussion and Analysis section, include:

- Development of specific recommendations for regulators and financial industry participants to address weaknesses in the financial system through the PWG and international groups
- Development (and implementation) of the economic stimulus package under the Economic Stimulus Act of 2008
- Assistance to homeowners through support for legislation providing temporary tax relief, FHA modernization (in particular creation of the Hope for Homeowners program), higher conforming limits for mortgages and GSE reform
- Helping homeowners through public and private sector initiatives, such as FHASecure and HOPE NOW
- Finding solutions for troubled non-depository financial institutions
- Contributing to placement of Fannie Mae and Freddie Mac into conservatorship
- Implementation of measures to bolster regulation of national banks and thrifts
- Issuing the *Best Practices for Residential Covered Bonds* and working with financial institutions to establish a U.S. covered bond market
- Developing legislation allowing Treasury to increase liquidity in financial markets
- Establishing a Temporary Guarantee Program for money market funds
- Serving as primary coordinator for U.S. policy for the U.S.-China SED

Individual Department offices within Treasury made significant contributions to these efforts.

- The Office of Economic Policy provided detailed analysis on key elements of the turmoil, including subprime mortgage defaults, credit market disruptions, general conditions in housing markets and sources of higher commodity prices. Findings from this analysis were used by policymakers across government to formulate policy action. For the economic stimulus package, the Office of Economic Policy worked collaboratively with the Council of Economic Advisors to estimate the impact and effectiveness of different policy approaches and finalize the package's composition. The Office of Economic Policy also contributed to the development of Hope for Homeowners, a program to help those at risk of default or foreclosure refinance into more affordable mortgage loans.
- The Office of Financial Markets (OFM) provided direct support to the PWG, including coordinating meetings, developing briefing materials and drafting the *Policy Statement on Financial Market Developments*. OFM also analyzed a range of issues related to securities and futures markets (including credit rating agencies; capital market competitiveness; broker-dealer, investment advisor and money market fund regulation; international accounting and auditing issues; mutual recognition of comparable foreign regulatory agencies; energy and agricultural commodity price volatility; CFTC reauthorization; House and Senate energy bills; and oversight of exempt commercial markets) and organized and chaired monthly staff meetings of the Interagency Financial Markets Group.

- OFM and the Office of Financial Institutions Policy (OFIP) contributed significantly to the *Blueprint for a Modernized Financial Regulatory Structure*. OFIP played the lead role in policy actions associated with the restructuring of Fannie Mae and Freddie Mac.
- OFM and the Office of International Affairs coordinated Treasury's participation in the formulation of international recommendations for policy action through the FSF, G-7, G-20 and other groups. In addition, the Office of International Affairs coordinated U.S. Government bilateral negotiations on regulatory and policy arrangements with other national authorities.
- OCC and OTS, as the primary regulators of national banks and thrifts, implemented measures ensuring stability at these financial institutions. Both supervisors introduced new regulatory guidelines for financial operations, issued new guidance for management of mortgages and assisted homeowners in finding solutions to avoid foreclosure.
- To facilitate student loan funding after the seizing of key funding markets, the Office of Domestic Finance worked closely with the Department of Education and the Office of Management and Budget to develop measures to ensure uninterrupted access to federal student loans for eligible applicants. Shortly following passage of the Ensuring Continued Access to Student Loans Act of 2008 in May, the Departments of Education and Treasury unveiled a four-point plan to ensure continued access to federal student aid. Included were two new programs to 1) ensure lenders could originate Federal Family Education Loans and not lose money, and 2) provide liquidity to lenders unable to raise capital cost-effectively in the market. Hundreds of lenders participated in one or both programs, enabling funding of student programs for the 2008-2009 academic year.
- Formation of a Market Room within Treasury to monitor financial market activity, pulling talent from various offices across the Department, contributed to timely response to market events. Formed before the crisis began in August 2007, the

Market Room is now a permanent intra-agency body within Treasury.

- Through the U.S.-China SED, the Joint Economic Committee, the Financial Services Working Group and the Investment Forum, Treasury offices continue to engage China as a strategic economic partner. Through these dialogues, the Department has focused on engaging Chinese government officials on the importance of diversifying their economy beyond export driven growth, developing tools to manage a market-driven economy, developing greater exchange rate flexibility, and opening markets to foreign goods and financial services. The fifth U.S.-China SED will be held in Beijing, China in December 2008.

## Conclusion

It is inherently difficult to assess the success or failure of policy initiatives shortly after implementation. Lack of data and different possible interpretations of results complicate meaningful evaluation of program performance. Still, while financial market challenges remained the primary focus of policy attention at the end of fiscal year 2008, significant achievements in mitigating financial turmoil and stabilizing economic conditions were evident. While there had been significant difficulties at individual financial institutions, systemic failure of the banking system was not evident. Where economic growth had turned negative at the end of 2007, the stimulus package implemented beginning in May helped stabilize the economy in the middle of 2008. Through the end of the fiscal year, more than two million at-risk homeowners were helped by HOPE NOW, FHASecure and other public and private initiatives, preventing foreclosures. International initiatives succeeded in improving coordination between national authorities to address market conditions. Measures were proposed to address troubled assets at financial institutions and inject capital into financial markets. Restructuring of Fannie Mae and Freddie Mac reduced uncertainty related to outstanding GSE bonds and the continuity of markets for mortgage financing. Initiatives to find alternative funding for student programs had succeeded by the beginning of the 2008-2009 year in providing educational funding for millions of students. Although Treasury has



no performance measures to evaluate the success of policy initiatives in sustaining economic growth, the Department made exceptional efforts during fiscal year 2008 to stabilize financial markets and the broader economy.

## Moving Forward

The Department will continue to monitor market events, analyze existing conditions, and take action as necessary to promote real, robust and sustainable economic growth. Credit markets continue to experience weakness moving into fiscal year 2009. The Emergency Economic Stabilization Act of 2008 (signed into law October 3, 2008) is intended to promote market stability and protect the U.S. economy, by authorizing Treasury to purchase and guarantee troubled financial assets and make equity investment in banks. The Act establishes a new Office of Financial Stability in the Treasury Department to implement a \$700 billion Troubled Asset Relief Program (TARP). Operations of the TARP will be overseen by a Financial Stability Oversight Board comprised of the Secretary of the Treasury, the Chairman of the Federal Reserve, the Director of the FHFA, the Chairman of the SEC, and the Secretary of HUD. In addition, TARP will be audited by a Special Inspector General, will be subject to audits by the GAO, and will have its activities reviewed by a Congressional Oversight Panel. The Office of Financial Stability will be required to report on TARP activities on a monthly basis and make special reports on asset holdings for every \$50 billion in purchases. Treasury will work to ensure provisions under the Act are implemented efficiently and effectively to protect taxpayer interests, provide market stability, help families stay in their homes, and encourage return to market normalcy.

Additional future challenges for Treasury:

- The PWG is expected to issue its update on implementation of recommendations from the *Policy Statement on Financial Market Developments* before the end of 2008. This update will review progress by state and federal government agencies, private sector interests, and non-governmental organizations in addressing identified structural weaknesses. The update is expected to include

additional recommendations to improve financial market oversight and industry practices.

- The current “siloed” system of financial industry regulation in the U.S. is incompatible with a financial market where sector lines have blurred and market globalization necessitates international regulatory coordination. The *Blueprint for a Modernized Financial Regulatory Structure* issued in March offered a series of near, intermediate, and long-term solutions to structural weaknesses in the regulatory system, most of which have not yet been implemented. Implementation of financial regulatory reforms in 2009 will be critical.
- Efforts to reform Social Security and Medicare are stalled given the focus on economic and financial conditions. The \$13.6 trillion actuarial deficit for Social Security will have to be addressed in the near future. The projected insolvency of the Medicare trust fund by 2019 and growing prescription drug benefit expenditures will need to be addressed in the immediate future. The Treasury Department in fiscal year 2008 issued five policy briefs proposing specific reforms of Social Security which have yet to receive dedicated policy attention. Implementation of entitlement reform is an essential Treasury policy objective for 2009.
- Market conditions have complicated efforts to mitigate risks at national banks and thrifts. Strained markets for some financial products and over-exposure by some regional banks and thrifts to areas deeply affected by falling home prices have constrained management of risk exposure. The OCC and OTS will continue to work with these banks and thrifts to isolate risky assets and implement strategies limiting risk exposure.
- Protectionist interests are increasingly eroding international trade and financial linkages. Collapse of the World Trade Organization’s Doha Round of trade talks in July 2008, heightened concerns about investments by sovereign wealth funds and other foreign government-owned enterprises, and delayed consideration of the U.S.-Colombia Free Trade Agreement, have limited efforts to open international markets to U.S. commerce. Opening foreign and domestic markets for goods and



services is vital for sustaining a robust and growing U.S. economy. Treasury will endeavor to resume the opening of global markets in 2009.

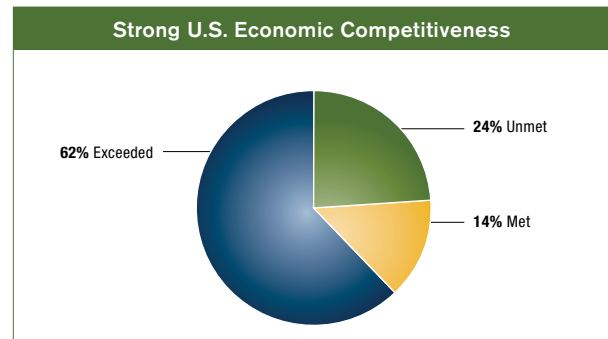
### Assessing the Effectiveness of Established Programs

For established programs, performance in improving economic opportunity, mobility, and security was moderately strong. Performance exceeded target levels for 55 percent of measures, met target levels for 29 percent, and did not meet target levels for 16 percent. (Seven measures were discontinued and seven measures were base-lined in fiscal year 2008.) For active measures, 35 percent of performance targets showed trend improvement, 13 percent of targets were flat with neither improvement or decline, and 52 percent showed target trend decline. For actual trend results, 58 percent of results showed trend improvement, ten percent had flat trends, and 32 percent showed trend declines. The average deviation from target (the average percentage difference of actual to target) for all measures was 20 percent.

## STRONG U.S. ECONOMIC COMPETITIVENESS

Strong U.S. economic competitiveness is crucial for robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department develops policies and programs intended to promote a prosperous financial infrastructure, a balanced macro economy, market efficiency, technological readiness, and innovation. For fiscal year 2008, Treasury generally met or exceeded its performance targets for established programs promoting U.S. economic competitiveness.

### Fiscal Year 2008 Results



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	11	52%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	4	19%
Unfavorable downward trend	▼	3	14%
No change in trend, no effect	►	0	0%
No change in trend, favorable effect	►	0	0%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	3	14%
<b>TOTAL</b>		<b>21</b>	<b>100%</b>
Discontinued		3	

**Key Performance Measure Table**

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Administrative cost per number of Bank Enterprise Award (BEA) applications processed	CDFI	\$1,455	\$3,070	-11%	Unmet	\$1,455	▲	▲
Administrative costs per financial assistance application processed	CDFI	\$6,920	\$7,200	96%	Unmet	\$6,920	▲	▲
Administrative costs per number of Native American CDFI Assistance applications processed	CDFI	\$9,090	\$10,990	79%	Unmet	\$9,090	▼	▲
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed	CDFI	\$4,875	\$7,400	48%	Unmet	\$4,875	▼	▲
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance (\$ million)	CDFI	\$750	\$621	83%	Unmet	\$635	▲	▼
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees	CDFI	28,676	29,539	103%	Exceeded	30,000	▲	▲
Average number of days to process an original permit application at the National Revenue Center	TTB	Baseline	64	100%	Met	72	B	B
National Revenue Center (NRC) customer satisfaction survey	TTB	Baseline	90%	100%	Met	85%	B	B
Percent of electronically filed Certificate of Label Approval applications	TTB	52%	62%	119%	Exceeded	52%	▲	▲
Percentage of instances where the utilization of the International Trade Database System identified importers without permits as a percentage of total permits on file	TTB	Baseline	15%	100%	Met	16%	B	B
See Appendix for additional information regarding calculation of "Percent of Target Achieved."								

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

**Analysis of Performance Results**

Performance for established programs promoting strong U.S. economic competitiveness exceeded target levels for 62 percent of measures, met target levels for 14 percent of measures, and did not meet target levels for 24 percent of measures for fiscal year 2008. (Three performance measures were discontinued.) Fifty-six percent of performance targets showed trend improvement, 33 percent showed target trend decline and 11 percent showed neither decline or improvement. For actual trend results, 61 percent of results showed trend improvement, 33 percent showed trend declines and six percent showed neither decline or improvement. These results indicate that these programs generally succeeded in achieving their performance goals.

## Community Development Financial Institutions Fund

The Community Development Financial Institutions Fund provides grants and loans to financial institutions (Community Development Financial Institutions, or CDFIs) which provide capital, credit and financial services to underserved populations and economically distressed communities. Performance results for 2008 were mixed: 12 measures exceeded target levels and five measures did not meet target levels. The greatest shortfall, covering four of the five unmet measures, was in management of administrative costs. The Fund's activities are divided into four components:

- The CDFI Program provides direct funding to CDFIs. In fiscal year 2008, the CDFI Program distributed \$54.2 million in funding. The CDFI Program did not meet two performance targets in 2008. *Administrative costs per financial assistance application processed* were \$7,200, four percent higher than the target of \$6,920. The cost target for 2009 is again \$6,920. The amount of money CDFIs were able to attract from private investors leveraging their participation in the CDFI Program was \$621 million, 17 percent below the target of \$750 million. This deficit, however, was largely anticipated given conditions in financial markets. The private funding target for 2009 is \$635 million. For other performance measures, the CDFI Program met or exceeded target levels. Eighty percent of CDFIs increased their total assets over the previous year (versus a target of 70 percent), the percentage of eligible areas served by more than one CDFI increased to 3.4 percent (versus a target of 3.0 percent) and CDFIs helped provide funds creating or maintaining an estimated 29,539 jobs in underserved communities (versus a target of 28,676 jobs).
- The BEA Program provides cash awards to banks which increase their investment in low-income communities and CDFIs. The BEA Program registered an increase from \$227 million to \$232 million in program participants' qualified investments between fiscal years 2007 and 2008, despite financial market challenges. However, administrative costs per application were \$3,070, 111 percent

higher than the target of \$1,455. The cost target for 2009 is \$1,455. The number of small businesses and commercial real estate properties located in underserved communities and financed by program applicants met performance targets, also despite financial market problems.

- The NMTC Program permits taxpayers to receive credit against federal income taxes for making qualified equity investments in designated Community Development Entities. The NMTC Program competitively awarded \$3.3 billion in tax credit allocations in fiscal year 2008, surpassing the target of \$2.5 billion. However, administrative costs per application were \$7,400, 52 percent higher than the target of \$4,875. The cost target for 2009 is \$4,875. In fiscal year 2008, 73 percent of CDE loans and investments were made in severely distressed communities, exceeding the target of 66 percent.
- The Native Initiatives component of the CDFI Fund provides financial assistance, technical assistance and training to CDFIs and other entities seeking to become CDFIs in Native American communities. The initiative registered a 19 percent increase in total assets for 2008, beating the target increase of 15 percent. However, administrative costs per application in fiscal year 2008 were \$10,990, 21 percent higher than the target of \$9,090. While this was substantially below fiscal year 2007 costs of \$13,510, the target is again set at \$9,090 for fiscal year 2009.

## Alcohol and tobacco industry regulation

The TTB protects consumers of alcohol and tobacco products from fraud and deception through industry regulation. Importers and bottlers of alcohol beverages are required by law to obtain a Certificate of Label Approval (COLA) or certificate of exemption from label approval from TTB for most alcohol beverages prior to introduction into the market. Through September 30, 2008, TTB processed 133,427 COLA applications. Sixty-two percent of applications were received electronically through COLAs Online, significantly beating the target of 52 percent and 2007 actual result of 51 percent. The increase in online applications was due in large part to outreach efforts by the

Advertising, Labeling, and Formulation Division through educational workshops, one-on-one demonstrations to large filers, and the first annual TTB expo.

The three additional performance measures for TTB were new for fiscal year 2008. Two were customer service measures replacing measures which were discontinued in 2008. The third is a measure assessing TTB's enforcement of product labeling non-compliance among alcohol and tobacco importers. In fiscal year 2008, TTB issued 105 cease and desist letters to tobacco importers identified by the bureau as operating without a permit.

### Office of Financial Education

Treasury, through the Office of Financial Education, coordinates government efforts to promote financial education through outreach activities across the country. In fiscal year 2008, Treasury held several large events, including a major conference on banking the "unbanked" in New York City, two roundtables on multicultural issues, and an international conference including 43 countries from the Organization for Economic Co-operation and Development and the Organization of American States. Promotion of the [MyMoney.gov](http://www.MyMoney.gov) and 1-888-MyMoney toll-free hotline resulted in 510,900 visits and 1,100 calls, respectively. On an inter-agency basis, the office supports initiatives by the President's Advisory Council on Financial Literacy, which for fiscal year 2008 included issuance of new financial education curriculum for middle school and high school students, creation of a Community Financial Access Pilot to expand financial education in low- and moderate-income communities, and development of a baseline survey to examine financial literacy among U.S. adults.

### Managing international negotiations concerning energy and the environment

Recognizing the linkages between economic development and protection of the environment, Treasury created a new organization within the Department to manage environmental and energy issues as they relate to economic policy. This organization was centrally involved in the launch of a Clean Technology Fund by the U.S., Britain, Japan, Germany, and France. The Fund's goal is to reduce the

growth of greenhouse gas emissions in developing countries through the financing of clean energy technologies. Introduction of these technologies will help reduce global emissions and migrate emerging markets' development paths towards lower carbon emission systems in anticipation of a more environmentally sustainable global climate framework. Treasury also actively engaged Chinese officials in discussions of energy and environment issues through the U.S.-China SED.

### Conclusion

The CDFI Fund continues to provide important financial assistance to troubled regional markets. The Fund provided substantial benefits to low-income and underserved communities by attracting private resources and expanding job creation. However, cost management at the Fund will require significant attention in 2009. Fund cost targets for 2008 have been retained for 2009 in anticipation of this effort.

TTB discontinued several measures in 2008 and replaced them with new measures that more accurately track performance outcomes. These new measures will provide greater clarity on bureau operations and permit greater insight into management effectiveness, when there is sufficient data to review. TTB plans to continue their successful marketing efforts to promote COLAs Online to educate users about the benefits of using the E-Filing system. Dramatic improvements in online applications such as from 2007 (51 percent of applications) to 2008 (62 percent of applications), however, are unlikely for 2009.

### Moving Forward

Given challenging economic conditions, the CDFI Fund's role in providing financing for low-income and economically-distressed communities will continue to be essential. Provisions in the *Housing and Economic Recovery Act of 2008* created a new competitive grant program, entitled the Capital Magnet Fund, within the CDFI Fund, which will support affordable housing and economic development in underserved areas most directly affected by the housing crisis. The Director of CDFI is actively participating in implementation of TARP, serving as primary advisor

on issues related to housing conditions in low-income communities.

TTB will continue to work to reduce costs associated with COLA applications, improve processing time and seek to migrate users to the COLAs Online system. TTB plans to begin using the International Trade Database System to identify illicit alcohol importers in 2009, in addition to tobacco importers.

Three recommendations of the GAO's December 2006 report have not yet been implemented by the Office of Financial Education but are slated to be addressed in fiscal year 2009. These include:

- Conducting usability testing to measure the quality of users' experiences with the Commission's website
- Develop a customer satisfaction measure to assess users' experiences with the website
- Provide for independent third-party review of financial education resources among federal agencies and review the availability, utilization, and impact of financial literacy materials

The Office of Economic Policy is currently developing a new composite measure to assess its performance in providing micro- and macroeconomic analysis. The measure will be linked to achievement of two outcomes: strong U.S. economic competitiveness and prevention or mitigation of financial or economic crises. Variables which are being considered for the measure include: timeliness of release of analysis from receipt of data or assignment, accuracy of analysis, whether or not analysis is communicated effectively to stakeholders, the degree to which research and analysis were used to formulate policy or recommendations, and whether or not analysis is done proactively or reactively. This measure is expected to be completed by the end of fiscal year 2009.

## COMPETITIVE CAPITAL MARKETS

Prosperous capital markets play an important role in facilitating economic growth by inspiring investor confidence and ensuring fair asset pricing. Treasury strives to preserve the integrity of the U.S. market, which is essential to maintaining competitiveness.

Treasury does not have performance measures linked to promoting competitive capital markets. Most efforts related to this outcome are policy initiatives, such as the *Blueprint for a Modernized Financial Regulatory Structure* discussed earlier in this section. The Department's *Capital Markets Competitiveness Action Plan*, initiated in 2006 by the Secretary, elevated the federal government's policy debate on regulatory impediments to U.S. financial market competitiveness. In March 2007, a conference on U.S. capital market competitiveness was hosted by Treasury to sharpen dialogue on the issue. In June 2007, Treasury participated in the PWG's appointment of two blue ribbon panels to develop best practice guidelines for hedge fund managers and investors, an initiative which followed the March conference. At the same time, development of the *Blueprint* was announced to outline regulatory reforms aimed at improving capital market competitiveness. With the credit crisis, the *Blueprint* assumed greater urgency and was refocused towards fundamental reform of the financial regulatory system. Treasury will continue to work with national, state, and international government organizations to reform the financial regulatory system and restore confidence in the integrity and competitiveness of financial markets.

Going forward, the Department will develop a suitable performance measure to assess progress in maintaining competitive capital markets.

## FREE TRADE AND INVESTMENT

Open foreign and domestic markets for goods and services are vital for a robust, growing and sustainable U.S. economy. While protectionism has strengthened over the last year, Treasury continues to work to maintain open markets for American products. For fiscal year 2008, Treasury met or exceeded its performance targets for established programs seeking to promote free trade and investment.

### Fiscal Year 2008 Results



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	0	0%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	►	0	0%
No change in trend, favorable effect	►	0	0%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	2	100%
<b>TOTAL</b>		<b>2</b>	<b>100%</b>
Discontinued		1	

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of New Trade and Investment Negotiations Underway or Completed	DO	Baseline	14	100%	Met	6	B	B
Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce U.S. trade law and international agreements	DO	Baseline	68	100%	Met	68	B	B

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

Performance for established programs promoting free trade and investment cannot be determined from performance measure analysis, as two new measures were added for 2008 and one measure was discontinued. Qualitative analysis of results, though, suggests that these programs succeeded in achieving their performance goals.

Foreign investment in the U.S. and U.S. investments overseas are major sources of economic growth. The Office of International Affairs serves as chair of the inter-agency



Committee on Foreign Investment in the United States (CFIUS) to ensure that foreign investment does not pose a national security risk. In fiscal year 2008, CFIUS issued updated guidance to investors on investment practices, following passage of new legislation last year. Treasury's on-going Open Investment Initiative is intended to promote economic growth by 1) highlighting the benefits of international investment, 2) warning against the dangers to the U.S. and global economies from protectionism, and 3) explaining U.S. investment policy in the context of economic security. The Initiative emphasizes the need for open investment channels to promote growth and development, both for the U.S. and world economies. Similarly, the International Trade Program seeks to promote growth through lower trade barriers. Through multilateral and bilateral negotiations with foreign counterparts, the programs seek to ensure open markets for U.S. exporters, financial services suppliers and investors.

In fiscal year 2008, the Office of International Affairs had two performance measures associated with this outcome. The first measure, the number of trade and investment negotiations either underway or concluded, was initiated at a level of 14. The fiscal year 2009 target for this measure, however, is six, due to uncertainty associated with future free trade negotiations. The second measure, the number of specific trade actions to enact, implement, and enforce US trade law and international agreements, was initiated at a level of 68 actions. The target for 2009 is also 68 actions.

## Conclusion

Given that both current measures are new, there is little quantitative evidence to judge the effectiveness of performance in trade negotiations and enforcement actions. Additional data in future years will provide greater clarity on program effectiveness.

## Moving Forward

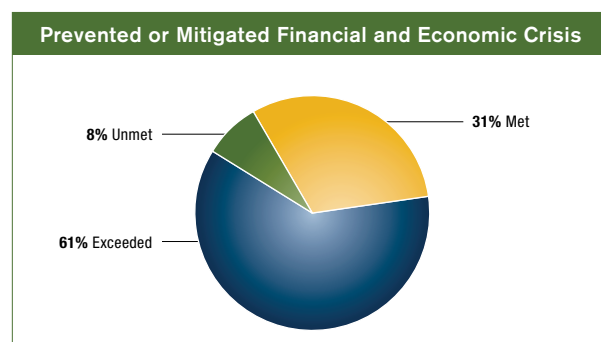
Efforts to expand international trade and investment linkages are increasingly overshadowed by growing protectionist sentiment. Collapse of the World Trade Organization's Doha Round of trade negotiations in July 2008, failure to pass the U.S.-Colombia Free Trade Agreement and concerns about investments by sovereign wealth funds and foreign government-owned enterprises significantly impede U.S. economic engagement with international markets.

While bilateral negotiations continue, it is essential that multilateral negotiations resume to address outstanding global trade and investment issues. Enforcement actions in the current economic climate will likely continue to outpace expectations, given heightened concerns about unfair practices in a slowing economy.

## PREVENTED OR MITIGATED FINANCIAL AND ECONOMIC CRISES

Prevention and mitigation of financial and economic crises have obvious economic benefits. Treasury's focused policy efforts to address financial and economic market conditions during fiscal year 2008 have been outlined in the sections above and the Management Discussion and Analysis. While Treasury generally met or exceeded its performance targets for established programs seeking to prevent or mitigate financial and economic crises, given troubled conditions at some national banks and thrifts, it is necessary to examine existing measure targets or establish new performance measures.

### Fiscal Year 2008 Results



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	4	31%
Favorable downward trend	▼	1	8%
Unfavorable upward trend	▲	1	8%
Unfavorable downward trend	▼	3	23%
No change in trend, no effect	▶	2	15%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	2	15%
<b>TOTAL</b>		<b>13</b>	<b>100%</b>
Discontinued		3	

**Key Performance Measure Table**

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Changes that result from project engagement (impact)	DO	Baseline	3.1	100%	Met	3.1	B	B
Scope and intensity of engagement (traction)	DO	Baseline	3.7	100%	Met	3.7	B	B
Percent of national banks with composite CAMELS rating of 1 or 2	OCC	90%	92%	102%	Exceeded	90%	►	▼
Percentage of licensing applications and notices completed with established timeframes	OCC	95%	95%	100%	Met	95%	►	►
Percentage of national banks that are categorized as well capitalized	OCC	95%	99%	104%	Exceeded	95%	►	►
Percentage of national banks with consumer compliance rating of 1 or 2	OCC	94%	97%	103%	Exceeded	94%	►	▲
Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5)	OCC	40%	47%	118%	Exceeded	40%	►	▲
Total OCC costs relative to every \$100,000 in bank assets regulated	OCC	\$9.55	\$8.39	112%	Exceeded	\$9.22	▼	▼
Percent of safety and soundness exams started as scheduled	OTS	90%	94%	104%	Exceeded	90%	►	▲
Percent of thrifts that are well capitalized	OTS	95%	98.4%	104%	Exceeded	95%	►	▼
Percent of thrifts with a compliance examination rating of 1 or 2	OTS	90%	95.8%	106%	Exceeded	90%	►	▲
Percent of thrifts with composite CAMELS ratings of 1 or 2	OTS	90%	90%	100%	Met	90%	►	▼
Total OTS costs relative to every \$100,000 in savings association assets regulated	OTS	\$15.08	\$15.10	99.9%	Unmet	\$15.07	▲	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

**Analysis of Performance Results**

Performance for established programs aimed at preventing or mitigating financial and economic crises exceeded target levels for 61 percent of measures, met target levels for 31 percent of measures and did not meet target levels for eight percent of measures. (Three performance measures were discontinued.) Target trends were generally flat, except for cost measures which have increased over time. Actual trends were mixed, with fewer banks and thrifts receiving CAMELS ratings of one or two and fewer being categorized as well capitalized. Lower actual trends for these measures are indicative of the financial difficulties faced by banks and thrifts during 2008. Still, the fact that

most commercial banks and thrifts are well-capitalized suggests that the OCC and OTS generally achieved their performance goals. However, as performance targets at OCC and OTS have been significantly exceeded, and particularly that targets were exceeded during a challenging year, strongly suggests that target levels and measures need to be reevaluated.

### Regulation of banks and thrifts

Market conditions in fiscal year 2008 have highlighted the importance of banks' ability to identify, measure, manage, and control risk exposures. As discussed in the Management Discussion and Analysis, supervisory efforts at the OCC and OTS have emphasized the need for sound underwriting and credit administration at financial institutions, diversified sources of bank funding, strong internal controls and risk management systems, timely recognition of losses, and maintenance of adequate loan-loss reserves. Still, the percentage of banks and thrifts with CAMELS ratings of two or higher was lower in 2008 than at any point in the last five years. Favorably, the percentage of rehabilitated national banks of problem national banks was higher in 2008 than 2007. Efforts to improve visibility into the mortgage crisis through creation of a Mortgage Metrics report, stationing of examiners at key banks, analysis of leveraged lending systems and loan syndication, and encouragement of bank participation in HOPE NOW and Hope for Homeowners will continue. The question remains of what future action may be necessary to ensure the banking crisis remains contained.

In addition to regulatory efforts associated with the credit crisis, the OCC and OTS supervise activities in the areas of fair lending and consumer protection, implementation of security measures under the Bank Secrecy Act and Anti-Money Laundering (BSA/AML) Provisions, and preservation of information security.

The OCC and OTS ensure consumers have fair access to financial services and fair treatment in provision of services through ongoing reviews of lending practices. For both the OCC and OTS, the number of regulated institutions with consumer compliance ratings of one or two exceeded targets for 2008 and showed an upward actual trend. This is a

positive result for both bureaus. To improve consumer practices at banks and thrifts, the organizations conduct outreach efforts with advocacy groups, research organizations, community development practitioners, and other groups to determine appropriate consumer protection measures and help resolve consumer issues. To facilitate fair lending, the OCC and OTS issue handbooks and provide training to help borrowers determine if services are being offered appropriately, and to help bankers and bank directors better understand their obligations under the law. Banks found to be delinquent in meeting their obligations are referred for investigation to the Department of Justice, with notification to HUD as appropriate. To improve consumer protection, the OCC, OTS, FDIC, and Federal Reserve issued final rules in 2008 on identity theft "red flags", management of address discrepancies, and implementation of the Fair and Accurate Credit Transactions Act of 2003. In November 2007, the agencies and the Federal Trade Commission proposed regulations and guidelines to help ensure the accuracy and integrity of information provided to consumer reporting agencies, primarily by permitting consumers to directly dispute inaccuracies.

BSA/AML provisions remained a priority in 2008. The OCC and OTS conducted on-site examinations of bank compliance with BSA/AML provisions in parallel to safety and soundness examinations and took enforcement action as necessary. The OCC has developed a Money Laundering Risk System that provides over 1,600 national banks risk assessment information, helping facilitate statute compliance.

Administrative results for the supervisory bureaus were mixed. For the OCC, costs per \$100,000 in bank assets supervised fell significantly from \$8.89 in 2007 to \$8.39 in 2008. This was well below the target of \$9.55. Still, the percent of licensing applications and notices completed within established timeframes had a lower actual trend than in previous years. For the OTS, costs per \$100,000 in thrift assets supervised in 2008 were \$15.10, significantly higher than \$13.90 in 2007. While most of the cost increase is attributable to costly reviews of holding companies (which are not included in the cost calculation, but have \$8.4 trillion in assets) and challenges associated with supervising a large

number of small thrifts (some 60 percent of savings associations regulated by OTS have total assets less than \$250 million), the results suggest additional cost savings actions may be necessary for 2009. Still, the percentage of safety and soundness exams started as scheduled improved to 94 percent, exceeding target levels and actual results for previous years. These results show both management improvement and need for additional action at both organizations.

### Safeguarding critical infrastructure in the U.S. financial system

As the lead agency for management of banking and finance, Treasury is responsible for ensuring security and stability of the financial system in the event of natural or man-made disaster. The Office of Critical Infrastructure and Compliance Policy (OCIP) in Treasury collaborates with other federal and state regulators and the private sector to maintain safeguards against disruptions to critical financial infrastructure.

In Fall 2007, OCIP participated in a three-week pandemic flu exercise involving state and federal authorities, financial industry trade groups, and industry participants. In total some 2,700 organizations participated in the exercise, constituting the largest market-wide exercise to date. Following the exercise, OCIP worked with financial industry participants to develop a report detailing primary findings. After issuance of the report, OCIP hosted the first international symposium bringing together financial authorities and industry participants from around the world to discuss global pandemic flu planning.

To discuss current and emerging cyber threats, in February 2008 OCIP hosted a cyber summit bringing together financial services leaders from the business community, financial regulatory agencies, law enforcement, and the intelligence community. Two organizations representing the public and private sectors were respectively formed following the summit to coordinate management of cyber threats and improve contingency planning. The committees are jointly planning a cyber exercise for Fall 2008 to improve crisis response.

### Establishment of new performance measure for the Office of Technical Assistance

In fiscal year 2008, OTA established two new, comprehensive performance measures to assess the effectiveness of assistance programs for client countries. The measures evaluate the traction advisors establish with country leadership and the impact of client country programs implemented with U.S. assistance. The measures determine traction and impact along four dimensions: country integration into the international community, country progress towards strategic goals, human and systems capacity building, and program effectiveness across government and the private sector. The measures were base-lined in fiscal year 2008. The average rating was 3.7 for traction and 3.1 for impact, out of a possible score of 5.0.

### Conclusion

The OCC and OTS have made concerted efforts in fiscal year 2008 to supervise risk management at national banks and thrifts and mitigate the effects of the current credit crisis. Still, the failure of eight national banks and thrifts, weakened conditions at other banks and excesses in practices suggest there is room for improvement in supervisory oversight. For performance, better linkage of performance targets for OCC and OTS measures to actual results would improve visibility into supervisory quality. The fact that performance targets were exceeded or met for all but one of the bureaus' measures, despite current challenges in financial markets, suggests that targets could be set more aggressively and measures need to be reevaluated. This is a challenge Treasury will need to confront in 2009.

Implementation of the new OTA measures has provided significantly greater clarity on the impact of the office's operations. While previous measures gauged only the outcome of a client country's policy process, *i.e.* whether or not sustainable economic growth was achieved, the new measures allow for more direct analysis of the consultative role U.S. advisors provide in most countries. Ability to track these measures over time will permit greater understanding of the effectiveness of certain policy approaches and will help define ways in which standard recommendations can be tailored to address country-specific needs.

Additional measures of this type are currently being considered for other policy offices.

### Moving Forward

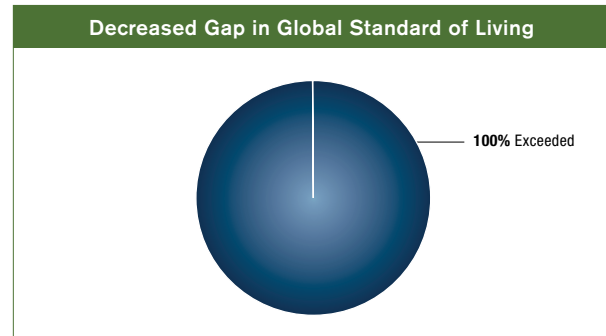
The OCC and OTS' strategic objectives for fiscal year 2008 continue to emphasize supervisory practices that support banks' and thrifts' ability to compete while maintaining safety and soundness. The OCC's priorities for fiscal year 2009 include supervisory issues related to potential adverse changes in national bank asset quality and risk profiles, completing implementation of Basel II capital standards, enforcing compliance with BSA/AML and *USA PATRIOT Act* requirements, and ensuring appropriate follow-up actions associated with financial market turmoil. The Shared National Credit Review undertaken by the OCC, Federal Reserve, OTS, and FDIC will continue through fiscal year 2009, with the agencies working to modernize the collection and analysis of data. The two supervisory bodies will also continue to work with state authorities to improve coordination and establish uniform national standards for banking practices.

In December 2008, OTS will hold its Third Annual National Housing Forum, bringing together the country's foremost experts in housing and mortgage finance to discuss potential solutions to the nation's housing crisis. The Forum permits financial services industry participants, federal and state regulators, public policy advocates, and financial analysts to discuss financing and reform issues. The OTS is also in the process of drafting a *Financial Institution Reform Initiative* offering recommendations on standards for mortgage brokers and mortgage companies.

## DECREASED GAP IN GLOBAL STANDARD OF LIVING

A decreased gap in the global standard of living, associated with improved economic conditions in emerging markets, improves economic opportunity for Americans. For fiscal year 2008, Treasury programs exceeded their performance targets related to decreasing the gap in the global standard of living.

### Fiscal Year 2008 Results



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	100%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	►	0	0%
No change in trend, favorable effect	►	0	0%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	0	0%
<b>TOTAL</b>		<b>2</b>	<b>100%</b>
Discontinued		0	



### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs	DO	90%	93%	103%	Exceeded	90%	►	▲
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement	DO	90%	94%	104%	Exceeded	90%	►	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

Performance for established programs seeking to decrease the gap in the global standard of living exceeded target levels. These results indicate that these programs succeeded in achieving their performance goals. However, the target trends for both measures were flat. The fact that performance targets were exceeded or met for the last four years for both of these measures suggests that targets could be set more aggressively.

### Reforming international financial institutions

With the adoption of flexible exchange rates and globalization of financial markets over the last decade, the need for IMF lending facilities has diminished. The result has been a reevaluation of policy direction at the IMF to determine future course. The Treasury Department, acting as the U.S. Government's primary economic policy agency, has been an active participant in these deliberations. The Department's primary recommendation for the IMF was to focus more directly on its core mission of analyzing government policies, providing advice to governments based

on that analysis, and managing international currency exchange. The Department's review of IMF programs for effectiveness and quality for fiscal year 2008 yielded an improvement rate of 93 percent, exceeding the target improvement rate of 90 percent.

As part of its reform process, the IMF has restructured its voting system to expand representation for emerging market countries. Reforms approved by the voting members of the IMF announced in April 2008 and supported by the U.S. tripled the number of voting shares under the charter, expanding participation and decision-making authority for over two-thirds of the IMF's 185 member countries. The change should provide a stronger voice for low-income countries and improve the working relationship between the IMF and emerging market participants, better reflecting the realities of today's economic landscape.

Based on the Treasury Secretary's recommendation, the IMF has coordinated development of guidelines for sovereign wealth fund investment in foreign markets. In September 2008 the International Working Group of Sovereign Wealth Funds, a body including representatives from 26 sovereign wealth funds working with the IMF, announced preliminary agreement on draft Generally Accepted Principles and Practices (GAPP). The GAPP framework provides a guide for sovereign wealth fund investment practices, governance and accountability arrangements and is expected to be published in October 2008.

Finally, the Treasury Department has actively supported restructuring efforts at the IMF to improve internal management. Cost-cutting initiatives implemented by the

Director of the IMF are expected to provide an estimated \$100 million in savings and focus the Fund on core functions. As part of these core functions, the Department has encouraged the IMF to contribute to development of a foreign exchange management system to help reduce conflict between nations over exchange rate management and improve international economic relations.

At the World Bank and European Bank for Reconstruction and Development, Treasury has been supportive of efforts to increase the voice of developing countries to better reflect their development needs and initiatives to channel more resources towards lower-income central European countries. Initiatives to reduce debt levels and improve the debt sustainability of poor countries through the Department's Heavily Indebted Poor Country Initiative and Multilateral Debt Relief Initiative have also yielded favorable results, particularly through active engagement with "emerging creditors" such as China.

In addition to promoting international trade and investment, the Office of International Affairs conducts annual reviews of the grant and loan programs at multilateral development banks to ensure effective practices are utilized to support developing economies. For fiscal year 2008, 94 percent of grant and loan programs at the multilateral development banks were found to have satisfactory frameworks, exceeding target levels and reflecting a positive actual trend.

### Efforts to support economic liberalization and development

The Department has a unique position to help transition economies and post-conflict countries as they reconstruct and develop their economies. Treasury financial attachés, technical assistance officers and regional officers engage at all levels of government, helping implement economic policies to promote economic growth and poverty reduction. The Treasury attaché program in particular, whereby attachés are posted in foreign countries considered significant to U.S. domestic or foreign economic policy, has been a central component of this support effort. By November 2008, the Department will have 16 attaché posts established with an additional five planned for deployment in 2009. Specific focus for development and reconstruction

activities has been on Iraq, Afghanistan, Georgia, Kosovo, and various African and Latin American countries.

***Iraq.*** Treasury continues to help Iraqi officials formulate and execute sound economic policies and guide their country on a sustainable path towards economic growth and development. As U.S. financial assistance for Iraq declines, Treasury is helping the Government of Iraq manage its own resources to lead reconstruction efforts and provide essential services throughout the country. Treasury has helped Iraq secure important debt relief agreements, remain in good standing on its IMF Stand-By Arrangement and commit to a medium-term reform strategy with the support of the international community.

***Afghanistan.*** Treasury has worked closely with the Afghan government and international institutions to continue Afghanistan's movement towards implementation of macroeconomic policies supporting growth, development and stability. Primary efforts focus on: helping Afghanistan meet its international commitments, particularly in the areas of fiscal sustainability and revenue collection; private sector development; fighting corruption; and countering illicit financial activities.

***Georgia.*** Following the August 2008 conflict with Russia, Treasury has worked with other U.S. Government agencies and international partners to assess economic vulnerabilities in Georgia. Treasury has proposed mechanisms for economic support and worked with Georgian authorities to continue policies bolstering market-led economic and financial market development. Significant efforts have been made to provide a timely support package.

***Kosovo.*** Treasury is providing the new government of independent Kosovo assistance in developing effective economic policies to support growth and national integration. This includes establishing a stable fiscal framework and implementing policies that provide a strong basis for private sector growth, notably in the energy sector. Treasury is also assisting with Kosovo's membership applications to international financial institutions and with efforts to resolve outstanding financial and debt issues with Serbia.

*African countries.* Economic performance in sub-Saharan Africa has improved dramatically in the last five years. Treasury, with advice and financial support provided through the IMF and debt relief initiatives with other donors, has encouraged African governments to implement macroeconomic policies promoting economic growth. Key action areas include: engaging African government officials on implementation of sound fiscal and monetary policies, working through the IMF to help low-income countries strengthen macroeconomic policy, and providing debt relief on condition of commitment to maintaining macroeconomic stability.

*Latin America.* Treasury continues to foster the U.S. Small Business Lending Initiative, launched in June 2007, to accelerate job creation and poverty-reduction in Latin America. Since inception, the initiative has generated \$68 million in loans and technical assistance grants to commercial banks in Latin America, providing support for small business development. Treasury also is providing technical assistance to countries in Latin America focused on establishing anti-money laundering measures.

## Conclusion

Treasury continues to play an important role in the implementation of reforms at international financial institutions and development of programs supporting economic

liberalization and development. The IMF's efforts in restructuring management and reorienting strategic focus, however, may be attenuated in fiscal year 2009 if weakened financial conditions increase sovereign demand for IMF lending and analytical support. Expansion of Treasury's attaché program has yielded favorable results and will continue to receive primary attention as means to improve communications with participant countries.

## Moving Forward

Treasury will continue to work with international development banks, the IMF, the World Bank, and other organizations to promote economic growth in developing markets. Ongoing reforms at the IMF, World Bank, and other organizations to better integrate emerging market perspectives in policy-making is essential for redefining international financial institutions to better match global markets. As economic reforms in Africa, Latin America, and other parts of the developing world continue, it can be expected that additional reforms will be necessary to reflect changed conditions. Treasury will continue to actively participate in international deliberations seeking ways to reduce the global standard of living gap, with the perspective that stronger international markets benefit the American economy.



# STRATEGIC GOAL: U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

## STRATEGIC OBJECTIVE:

### Trust and Confidence in U.S. Currency Worldwide

Continued trust and confidence in the integrity of United States currency, and the ready acceptance of U.S. currency as a secure medium of exchange for conducting business transactions, enable the free flow of domestic and global commerce, and contribute to the security and stability of the world's monetary system. Total circulation of U.S. currency around the world exceeds \$770 billion, and as much as two-thirds of that circulates outside the borders of the United States. To instill high levels of trust and confidence in the integrity of U.S. currency, the Department's currency products are designed to achieve the maximum possible levels of counterfeiting deterrence, product quality, user acceptance, and cost-effectiveness. To achieve these levels, BEP and the United States Mint manufacture and deliver high-quality U.S. currency notes, coins, and security

documents to the United States Federal Reserve and to federal agencies. In addition to producing notes, coins, and security documents, the Department also secures the nation's precious metals reserves.

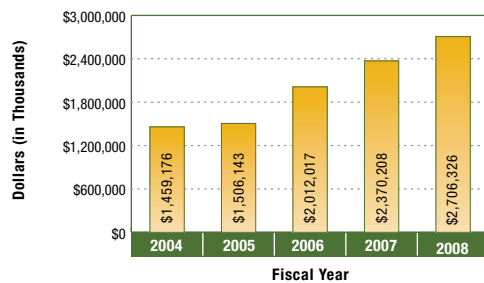
The bureaus and policy offices responsible for the achievement of this objective are:

- The Bureau of Engraving and Printing
- The United States Mint
- The Office of the Treasurer of the United States

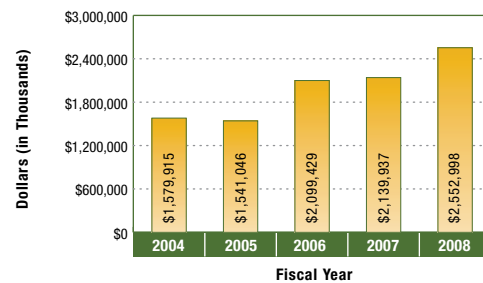
The outcome associated with this strategic objective is:

- Commerce enabled through safe, secure U.S. notes and coins

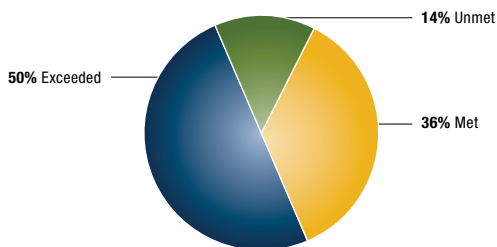
Budget Trend by Objective



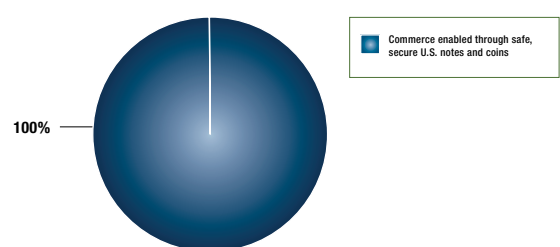
Performance Cost Trend



Trust and Confidence in U.S. Currency Worldwide



Performance Cost by Outcome

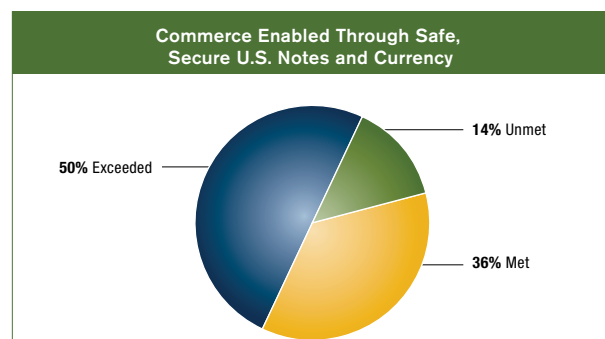


Program Assessment Rating Tool 2008				
Program	Bureau	Year Conducted	Rating	Current Improvement Plan
<a href="#">New Currency Manufacturing</a>	BEP	2003	Effective	▲
<a href="#">Protection and Accountability of Assets</a>	BEP	2006	Effective	▲
<a href="#">Coin Production</a>	Mint	2002	Effective	▲
<a href="#">Numismatic Program</a>	Mint	2004	Effective	▲
<a href="#">Protection</a>	Mint	2005	Effective	▲
Click on program name to obtain more information.				

## COMMERCE ENABLED THROUGH SAFE, SECURE U.S. NOTES AND COINS

Based on performance results, Treasury was generally successful at achieving this strategic objective and its associated strategic outcome during fiscal year 2008.

### Fiscal Year 2008 Results



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	0	0%
Favorable downward trend	▼	6	43%
Unfavorable upward trend	▲	2	14%
Unfavorable downward trend	▼	2	14%
No change in trend, no effect	▶	1	7%
No change in trend, favorable effect	▶	2	14%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	1	7%
<b>TOTAL</b>		<b>14</b>	<b>100%</b>
Discontinued		3	



### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Manufacturing costs for currency (dollar costs per thousand notes produced)	BEP	\$33.00	\$29.47	111%	Exceeded	\$37.00	▲	▲
Maintain ISO Certification	BEP	Met	Met	100%	Met	Met	►	►
Currency production (billion notes)	BEP	7.7	7.7	100%	Met	6.8	▼	▼
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements	BEP	99.9%	100%	100.1%	Exceeded	99.9%	►	►
Currency shipment discrepancies per million notes	BEP	0.01%	0.01%	100%	Met	0.01%	►	►
Security costs per 1,000 notes delivered	BEP	\$5.65	\$5.63	100.4%	Exceeded	\$5.65	▼	▼
Conversion costs per 1,000 coin equivalents	Mint	\$7.09	\$8.46	80.7%	Unmet	\$7.99	▲	▲
Conversion costs per 1,000 coin equivalents (% deviation from target)	Mint	Baseline	11%	100%	Met	0%	B	B
Protection cost per square foot	Mint	\$32.50	\$31.76	102%	Exceeded	\$31.75	▲	▼
Employee confidence in protection	Mint	86%	81%	94%	Unmet	83%	▼	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

In fiscal year 2008, 14 measures were reported for this objective, one of which was a new measure. Of all 14 measures, 12 measures (86 percent) either exceeded or met their performance targets. Two measures (14 percent) did not meet targets.

While the reported metrics indicate that Treasury met its performance targets for this objective and its associated outcome for fiscal year 2008, performance trends over the past four fiscal years require closer examination. Of these measures, seven (50 percent) showed a positive actual performance trend over time, four (29 percent) showed a

negative actual performance trend over time, two (14 percent) showed relatively flat performance over time, and a baseline was being established for one measure (7 percent). Overall, it can be concluded that trended actual performance over time appears to show a trend of improvement when averaged across all measures. Taking into consideration that three measures (18 percent, nearly one-fifth) of the associated performance measures were discontinued in 2008, one might also conclude, however, that the Department still needs to find a stable way of measuring success at achieving this objective and its outcome. Efforts to narrow in on an effective way to measure such success may need to become more aggressive.

When target trends over the past four fiscal years are examined, one finds that six targets have a positive direction (43 percent), two targets (14 percent) exhibited a fairly flat trend, and five (36 percent) displayed a negative direction. A baseline was being established for one measure (seven percent). Averaging these trends across all measures, it can be concluded that the overall trend in target-setting for this objective and its outcome also remained essentially flat. Taken together, the actual performance and target trends

over time may suggest that, either more aggressive target-setting is needed to stimulate improved performance, or perhaps new measures may need to be established.

### The Bureau of Engraving and Printing

In fiscal year 2008, BEP delivered 7.7 billion paper currency notes meeting Federal Reserve product quality standards and exceeding its performance target for costs per 1,000 notes produced. Notwithstanding, BEP manufacturing costs increased from \$28.71 per thousand units in 2007 to \$29.47 in 2008, a 2.65 percent increase. The increase was largely due to the annual Federal Reserve order for paper currency shifting toward proportionally greater production of higher-denomination notes which are more costly to manufacture and deliver. In addition, there was a 7.2 percent reduction in total currency notes ordered in 2008 as compared to 2007. Any highly capital-intensive manufacturing operation will tend to incur relatively high proportions of fixed costs; therefore, as production volume decreases, so do the number of units among which those fixed costs can be spread making each unit produced more costly. Reduction in Federal Reserve demand for currency also reduced BEP productivity by approximately 12 percent versus the prior year.

A notable effort in the currency manufacturing arena during the fiscal year included the launch of a redesigned \$5 note that went into circulation on March 13, 2008, a product redesign initiated to keep the nation's currency a step ahead of a developing counterfeiting threat.

BEP continued to keep product quality at consistently high levels despite changes in volume. In fiscal year 2008, BEP reported nearly 100 percent of the currency notes delivered to the Federal Reserve met its product quality requirements. As it has for the past six years, BEP maintained ISO 9001 certification in fiscal year 2008 for its currency production quality management system. ISO 9001 certification indicates an ongoing commitment to continuous process and quality improvement. In 2008, BEP also continued efforts to maintain ISO 14001 certification, which it first obtained in 2007. ISO 14001 certification indicates a commitment to high-quality environmental management.

BEP efforts related to protection and accountability over government assets continued to meet performance expectations, and BEP appears on track in its drive to reduce security costs by 43 percent between 2006 and 2012. Measures of shipment accuracy and overall security cost continued to meet targets. Fines, fees, and losses were also well under target.

In 2008, as it has for the past 23 consecutive years, BEP has received an unqualified audit opinion on its financial statements from an independent certified public accounting firm. The Bureau also received an unqualified opinion in 2008, as it has for the past three years, on the effectiveness of its internal controls over financial reporting based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission, a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. (For more information see <http://www.coso.org/aboutus.htm>.)

### The United States Mint

For the United States Mint, fiscal year 2008 was a year of mixed results. The slowing economy had a major impact on the Mint's financial results. Total revenue in 2008 reached \$2.80 billion, a \$165 million (6.3 percent) increase from \$2.64 billion in 2007. As a result of operations, the Mint returned \$750 million to the Treasury General Fund, down \$75 million (9.1 percent) from last year.

During fiscal year 2008, the United States Mint shipped 10.0 billion coins to the Federal Reserve, down from 14.0 billion coins shipped in fiscal year 2007. Circulating coin demand fell from fiscal year 2007 levels because of the economic slowdown and the Federal Reserve's decision to lower inventories. When production volumes decline because of lower demand, the Mint must allocate fixed costs over fewer units, which drives unit costs upward. While declining from last year, the unit cost for penny and nickel denominations remained above face value for the third consecutive fiscal year. Lower volumes also limited the Mint's ability to maintain the cost per 1,000 coin equivalents below target. Quarter and dollar denominations made up a growing portion of total coins shipped because of continued

collector interest in the rotating coin designs of the 50 State Quarters and Presidential \$1 Coin Programs. This increased the Mint's revenue from circulating operations and also augmented seigniorage (the difference between a coin's face value and its unit cost) per dollar issued. While the total quantity of coins shipped was, on average, 4.4 million coins down from the past four fiscal years, revenue reached \$1.29 billion and circulating seigniorage totaled \$706 million.

*The Presidential \$1 Coin Act (Public Law 109-145)* mandates Mint to identify, analyze, and overcome barriers to the robust circulation of \$1 coins. Promoting circulating usage of the coins is also beneficial to financial results because \$1 coins can be minted and issued at a higher seigniorage per dollar than any other denomination. As of September 30, 2008, the United States Mint had approximately \$224 million dollar coins in inventory primarily made up of Sacagawea dollar coins produced in 2000 and 2001 (\$92 million), and the Presidential dollar coins produced in 2007, the first year of the Presidential Dollar program (\$83 million). Net pay for all \$1 coins in fiscal year 2008 totaled \$240 million. This represents a 49 percent decline from the \$467 million coin net pay recorded in fiscal year 2007. The Federal Reserve defines demand for circulating coinage by the net payment (net pay) of coins at the Federal Reserve level. Net pay is the difference between coins deposited and coins withdrawn at the Federal Reserve by depository financial institutions (*i.e.* commercial banks and thrift institutions).

As part of the Mint's continuing work to promote the robust circulation of \$1 coins, at the close of fiscal year 2008, the Mint developed a three-pronged strategy to increase transactional demand of \$1 coins and began testing it in a four-city pilot program. In addition to standard public relations and advertising efforts used in the past, the bureau focused on retail activation by promoting usage directly with large-scale retailers. A thorough review of the pilot will be conducted when it concludes in November 2008. If successful in generating a significant increase in \$1 coins in circulation, the Mint will launch a regional or national program in 2009.

Retail sales of numismatic versions of the Mint's circulating and commemorative coins remained strong in spite of the slowing economy. Numismatic revenue totaled \$557 million, outpacing the fiscal year 2007 record total of \$552 million. Strong sales of both new and core recurring products drove most of the growth in fiscal year 2008. Net income and seigniorage from numismatic sales increased to \$85 million in fiscal year 2008 compared to \$76 million last year, an 11.8 percent increase.

The Mint experienced unprecedented sales of its gold, platinum, and silver bullion coins in fiscal year 2008. As the economy and financial markets softened, investors sought the perceived safety of precious metals. Total bullion revenue topped \$949 million, a \$593 million (166.4 percent) increase from fiscal year 2007. However, in fiscal year 2008, the Mint needed to temporarily suspend the sale of certain bullion products because inventories were insufficient to meet record demand. To address this, the Mint set standard allocation and ordering limits so that scarce products would be equitably distributed among authorized purchasers. The availability of processed precious metals is a worldwide problem, as the Mint must compete with other mints and consumers of metals around the world to acquire a limited supply of precious metal. Despite supply constraints, the Mint remains one of the world's largest producers of gold and silver bullion coins. During the fiscal year, efficient use of production capacity allowed the Mint to achieve record bullion production volume without incurring additional operating costs. The Mint produced 10.5 million (126.8 percent) more ounces of gold, silver, and platinum bullion than fiscal year 2007. Net income from bullion sales increased to \$17.8 million in fiscal year 2008 compared to \$4.6 million in fiscal year 2007, a sharp 287 percent increase of \$13.2 million dollars, nearly quadrupling the prior year's figure.

The Mint is responsible for protecting over \$200 billion in United States assets stored in its facilities. The Mint's Office of Protection safeguards both Mint assets and non-Mint assets in its custody, including gold and silver bullion reserves, as well as the Mint's products, employees, facilities, and equipment. During fiscal year 2008, the Mint

achieved its target protection cost per square foot metric by reducing expenses for overtime and travel from last year.

## Conclusion

Based on the analysis of the results, it can be concluded that the current suite of measures only partially gauges the success of the outcome and objective associated with coins and currency. Improved measures are needed to determine if commerce is effectively enabled for the nation, particularly for coinage. Accurately forecasting demand and maintaining inventory targets will minimize costs related to the entire supply chain. Management of Numismatic product inventory also needs to be addressed to minimize the costs of obsolescence and disposal. Measures providing even more information about process and product quality (such as cycle time and Six Sigma quality measures) could reduce manufacturing costs even further for both BEP and the Mint.

BEP has engaged in an extensive effort to rapidly introduce counterfeit-deterrent currency note redesigns, a necessary step to address the increasing frequency of serious counterfeiting threats, and to bolster global trust and confidence in the integrity of U.S. currency. The only indicator of success in this arena is the estimated counterfeiting rate. Because it is an indicator, setting a target for this would be similar to setting a target for the unemployment rate – it is an important outcome, but it is extremely difficult to draw a direct correlation between it and the actions of the Treasury Department. However, other measures could be considered such as the average cycle time and marginal costs to introduce note redesigns.

## Moving Forward

Continual imaginative efforts at counterfeiting U.S. currency and advancements in available technology demand that BEP invest heavily in research and development on counterfeit-deterrent note features. As a manufacturer, BEP has a highly capital-intensive operation with high fixed costs to cover. This forces BEP to squeeze the greatest possible cost efficiencies in its manufacturing operations without sacrificing effectiveness. Volume decreases place even greater pressure on the Bureau. BEP expects that in fiscal year 2009, productivity will drop another eight percent because

it is estimated volume will be reduced another 11.7 percent from 2008 levels, to 6.8 billion notes, representing a capacity utilization of only 68 to 85 percent. Electronic commerce, such as internet based electronic transactions and stored value cards, has adversely affected currency use by the public. These and other economic trends increase the potential for further reductions in BEP production volume in the future. This will require BEP to closely monitor and streamline overhead and production process costs to ensure the most efficient production of the nation's paper currency.

To improve efficiency, BEP is engaged in a multi-year project to retool and retrofit its manufacturing processes to increase its flexibility and improve its response to product configuration changes. The project will include installation of new state-of-the-art equipment capable of producing 50-note currency sheets, achieving greater production efficiency than the existing equipment, which produces 32-note sheets. The new equipment will include intaglio presses, electronic inspection systems, and finishing equipment. BEP is also investing in new technologies such as its BEP Enterprise (BEN) program, which will integrate various disparate information technology systems and applications used at BEP. The BEN program is intended to optimize the reliability, integration, and timely collection of real-time performance data from equipment on the production floor. Having this data available when needed will enable production supervisors and program managers to proactively manage manufacturing processes to gain production efficiency, and improve quality and productivity.

Today's operating environment requires BEP to invest heavily in research and development to meet the need for increasingly complex advanced counterfeit deterrent features needed to keep U.S. paper currency on the leading edge in counterfeit deterrence and to garner wide note acceptance by the public. To increase note acceptance, BEP has contracted a research study that is looking at options for enhancing note accessibility for the blind and visually impaired. This study is expected to be delivered in the second quarter of 2009. Additionally, in response to requests posed by the Federal Reserve to lower downstream costs of currency, BEP is also in process of testing various materials to investigate ways to prolong the useful life of currency notes.

BEP is continually evaluating the size and capability of its workforce so as to operate as cost-effectively as possible. BEP increasingly needs employees that possess a high degree of technical skill, and recognizes the need to continue building its workforce's capability to use more advanced equipment and meet new note design requirements. To address this challenge, BEP has implemented a competency and skill assessment and a training program designed to elevate the skill and proficiency levels of the BEP workforce, and provide optimized training where needed. This program should enhance staffing flexibility under a variety of foreseeable production scenarios.

To maintain trust and confidence in U.S. currency, today's operating environment forces BEP to engage in continuous efforts to improve note design, since rapid developments in reprographic technologies and computer-driven printing pose increased challenges to counterfeit deterrence. In response, BEP continues to collaborate with other members of the Advance Counterfeit Deterrent Steering Committee such as the Federal Reserve Board, the United States Secret Service, and other organizations within the Department of the Treasury to determine the effectiveness of current counterfeit deterrent features and evaluate possible future features and designs. The Committee also monitors the reliability of the BEP manufacturing process, the incorporation of new design features, and the effectiveness of those features during the course of daily cash transactions. To stay ahead of increasingly sophisticated counterfeiting threats, BEP is continuing its redesign of U.S. currency. Redesign of the \$100 note is underway, and a new design is expected to be approved for production in the 2009 to 2010 time frame.

To monitor ongoing product quality and asset accountability, BEP employs comprehensive security and product accountability programs. BEP is implementing a risk-based management approach to augment and improve these programs, designed to identify and rank risks and vulnerabilities by order of priority, so appropriate attention and resources are allocated to areas of greatest vulnerability. BEP also conducts stringent oversight methods such as physical inventories, unannounced compliance reviews, and independent audits, to assess, test, and monitor the

adequacy of internal controls, the physical security of assets and employees, and the adequacy of operating management oversight and the physical security and monitoring infrastructure. For proper asset accountability and security, BEP has policies requiring direct involvement of accounting and security personnel to ensure that proper accountability and security features are identified and addressed during each stage of acquisition and installation of new equipment. Whenever facility space is reconfigured to modify production processes, BEP maintains proper camera coverage and two-person compliance procedures for security and internal financial control. To boost IT security, BEP has evaluated, certified, and accredited all of its IT systems to meet applicable federal requirements, and implemented technologies such as laptop encryption and removable hard drive installation to prevent the compromise of information security, as well as patch management, and active vulnerability scanning and feedback programs to reduce information system vulnerability and improve the resilience of operational capability. Comprehensive succession planning is also being implemented, including emergency delegation of authority, safekeeping of records, and establishment of emergency operating capabilities.

To ensure smooth introduction and ready acceptance of the new redesign of the \$100 note and other future redesigned denominations, ongoing domestic and international communication and outreach about note redesign and counterfeit deterrent features is imperative for the business and financial communities such as foreign exchange companies, law enforcement agencies, banking officials, other cash handlers in industry, and to the general public. This is particularly important as international interest in the redesigned \$100 note is expected to greatly exceed what was experienced during rollout of previous note redesigns. To secure solid awareness of these changes, BEP is developing an extensive public education strategy to inform target industries and key stakeholder groups about the new \$100 note design. This strategy that may involve support from U.S. Foreign Service and other State Department personnel, as well as law enforcement agencies and foreign central banks around the world. It is crucial that users of U.S. currency worldwide be made



aware of design changes to avoid confusion over the notes' authenticity when issued by the Federal Reserve, and so people will recognize genuine U.S. currency when they receive it.

Although the Mint has successfully worked to reduce its manufacturing costs, base metal prices continue to make up the largest portion of circulating coinage production cost. Changing the composition of circulating coins to less expensive alternatives can generate significant cost savings and mitigate further reductions in seigniorage should metal market prices again increase for copper, nickel, and zinc. This is an important consideration, since there have been steady increases in the prices of copper, nickel, and zinc over the last few years. Although metals prices have trended downward during fiscal year 2008, the average daily spot price for the month of September increased 141.5 percent for copper, 34.0 percent for nickel, and 78.0 percent for zinc between 2004 and 2008.

The Mint's legislative affairs office and the Department are working to advocate for the passage of legislation granting the Secretary of the Treasury the authority to implement changes in coin material composition without having to first secure congressional approval. This could enable more effective control over the cost of raw materials used to manufacture coin products, and ultimately result in significant savings by providing the Department's flexibility to respond to changing market conditions. Legislation recommended by the United States Mint and Department of the Treasury was introduced in the House of Representatives as H.R. 3330 and in the U.S. Senate as S. 1986, *The Coinage Materials Modernization Act of 2007*. In connection, United States Mint Director testified before the House Subcommittee on Domestic and International Monetary Policy, Trade and Technology on March 11, 2008. H.R. 3330 assigns the responsibility for determining the metal content of all circulating coinage to the Secretary of the Treasury, the approach recommended by the Department to fairly and efficiently manage the highly technical evaluation of alternative metals using a public process with public protections afforded by the *Administrative Procedures Act*. Any other statutory provisions applicable to coinage such as denominations, size, required inscriptions, and other factors

would remain unaffected. On May 6, 2008, the United States House of Representatives passed a different approach to the problem by voice vote in H.R. 5512. In response, the Mint Director wrote to the House Subcommittee on Domestic and International Monetary Policy, Trade and Technology on May 6, 2008, stating that the "provisions of the bill are too prescriptive and limiting to allow for the successful implementation of the Act without severely jeopardizing significant and lasting cost savings for the American taxpayer." H.R. 5512 has since been referred to the Senate Committee on Banking, Housing and Urban Affairs, and the Mint continues to discuss the benefits of S. 1986 with the Committee, and is asking for consideration of the legislation during the 110th Congress. Further results of these efforts were pending as of the end of fiscal year 2008.

The Mint is responsible for providing an uninterrupted supply of circulating coinage to meet the needs of the United States. In fiscal year 2009, the Mint will establish a strategic coin reserve to ensure continuous supply of circulating coins in the event of coin demand exceeding production capacity. The strategic reserve will hold sufficient coinage to compensate for an unexpected disruption in operations equivalent to the loss of one circulating plant for a period of three months. Production disruptions beyond that time may require additional measures. The United States Mint plans to build the coin inventory over the next three years by taking advantage of excess production capacity during periods of lower coin demand. The accumulated inventory will also allow the agency to quickly meet any unexpected spikes in coin demand.

The Mint has also established a performance metric to monitor productivity that will be used internally at its manufacturing plants beginning in fiscal year 2009. The metric, related to operating equipment efficiency and covering operating data such as yield, machine throughput, and machine availability, is aimed at improving productivity. Additionally, the Mint is in process of rolling out a suite of new performance measures in fiscal year 2009 that will more clearly link to its outcome. These measures were still under development as of the close of fiscal year 2008.

## STRATEGIC GOAL: PREVENTED TERRORISM AND PROMOTED THE NATION'S SECURITY THROUGH STRENGTHENED INTERNATIONAL FINANCIAL SYSTEMS

### STRATEGIC OBJECTIVE:

Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security

The Office of Terrorism and Financial Intelligence (TFI) is the only organization solely devoted to using financial intelligence to track, degrade, and disrupt threats to U.S. national security. Its unique capabilities leverage intelligence, law enforcement, sanctions, regulatory, and diplomatic tools to achieve Treasury's strategic objective. It is imperative that potential threats to U.S. national security from financial and other support networks of terrorists, weapons of mass destruction (WMD) proliferators, drug traffickers, rogue regimes, and other criminals be impaired. Keeping the world's financial systems accessible to legitimate users and excluding those who wish to exploit these systems for illegal purposes ensures confidence in U.S. and international financial systems. If these systems are safeguarded and transparent, the ability of terrorists, drug traffickers, WMD proliferators, and other criminals to conceal illicit dealings will diminish.

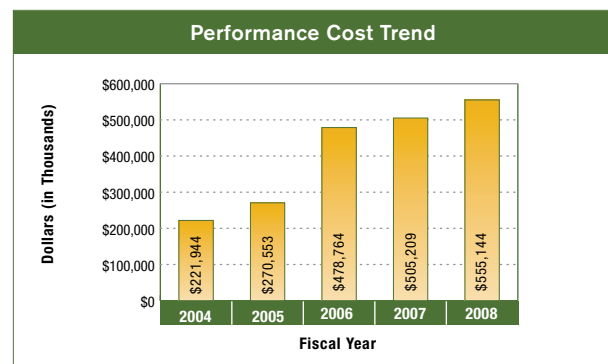
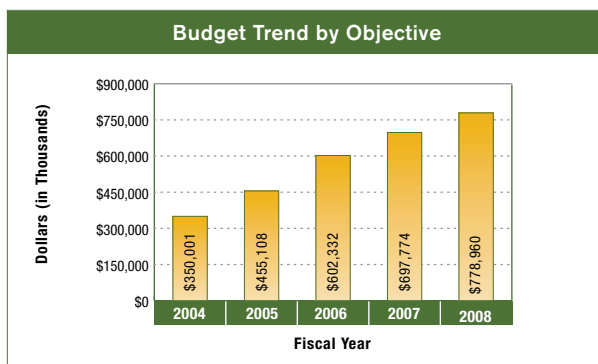
This is accomplished through five unified policy offices and one bureau within the Department:

- The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions
- The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach apparatus for TFI

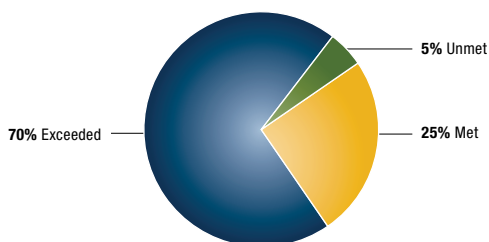
- The Office of Intelligence and Analysis (OIA) provides all-source intelligence analysis, leads the Department's integration into the larger Intelligence Community, and provides support to Department leadership on a full range of economic, political, and security issues
- The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA) and other regulatory functions
- The Treasury Executive Office of Asset Forfeiture administers the Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures

The outcomes associated with this objective are:

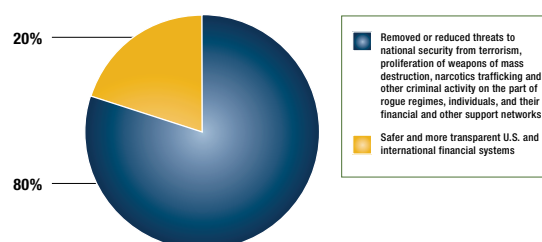
- Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks
- Safer and more transparent U.S. and international financial systems



### Pre-empted and Neutralized Threats to the International Financial System and Enhanced National Security



### Performance Cost by Outcome



### Program Assessment Rating Tool 2008

Program	Bureau	Year Conducted	Rating	Current Improvement Plan
<i>Economic and Trade Sanctions Program: Office of Foreign Assets Control</i>	DO	2002	Results Not Demonstrated	▼
<i>BSA Data Collection, Retrieval and Sharing</i>	FinCEN	2005	Moderately Effective	▲
<i>Bank Secrecy Act Administration</i>	FinCEN	2006	Results Not Demonstrated	▲
<i>Bank Secrecy Act Analysis</i>	FinCEN	2006	Adequate	▲

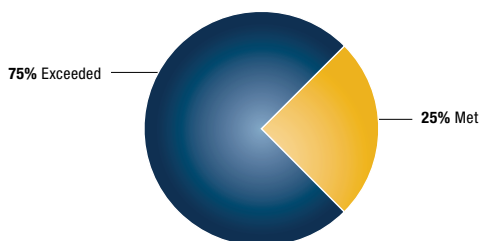
Click on program name to obtain more information.

## REMOVED OR REDUCED THREATS TO NATIONAL SECURITY FROM TERRORISM, PROLIFERATION OF WEAPONS OF MASS DESTRUCTION, DRUG TRAFFICKING AND OTHER CRIMINAL ACTIVITY ON THE PART OF ROGUE REGIMES, INDIVIDUALS, AND THEIR SUPPORT NETWORKS

Based on performance results, Treasury was generally successful in achieving this outcome in fiscal year 2008.

### Fiscal Year 2008 Results

#### Removed or Reduced Threats to National Security



### Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	50%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	2	50%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
<b>TOTAL</b>		<b>4</b>	<b>100%</b>
Discontinued		0	

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of open civil penalty cases that are resolved within the Statute of Limitations period	DO	120	233	194%	Exceeded	Discontinued	▲	▲
Increase the number of outreach engagements with the charitable and international financial communities	DO	70%	80%	114%	Exceeded	Discontinued	▼	▼
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40 + 9 recommendations	DO	12	12	100%	Met	Discontinued	▼	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

### Analysis of Performance Results

TFI introduced and began to apply a composite performance measure to improve the assessment of its impact. The following table represents the component areas of TFI's performance measure, aligned with its performance goals and the Department's outcomes. TFI was not given a rating or score, but evidence was collected to support and justify each focus area component. With a more formal methodology and process, a rating will be determined with the intent to score each area and rate their impact.

Treasury Outcomes	Performance Goals	Focus Areas
Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks	TFI effectively employed tools and authorities to further U.S. Government policy objectives and mitigate national security threats	Impact of policy making, outreach, and diplomacy
		Impact of economic sanctions
	Support the formulation of Treasury policy and the execution of departmental authorities through all-source analysis of the global financial network	Impact of information and analysis
	Provide Treasury Department decision makers with timely, accurate, and relevant intelligence support on the full range of economic, political, and security issues	
Safer and more transparent U.S. and international financial systems	Anti-money laundering and combating financing of terrorism regulations are administered effectively and efficiently	Impact of activities to create safer and more transparent financial systems

## Supporting Evidence of Performance Results

### Advancing U.S. policy goals through the Financial Action Task Force (FATF) and other international bodies

TFFC worked through the FATF, an entity that sets the global standards for combating terrorist financing and money laundering, to identify vulnerabilities in the financial system by issuing guidance, best practices, and recommendations. In fiscal year 2008, TFFC, as a member of the FATF:

- Led an international working group that developed guidance to assist countries in conducting domestic money laundering and terrorist financing risk assessments. The final report, *Money Laundering and Terrorist Financing Risk Assessment Strategies*, identifies key factors to be considered in conducting a risk assessment, including sources of data and methods of analysis
- Co-chaired a working group that identified jurisdictional money laundering/terrorist financing vulnerabilities in the international financial system with respect to Iran, Pakistan, Sao Tome and Principe, Turkmenistan, Uzbekistan, and the northern part of Cyprus. As a result, the FATF issued public statements expressing concern and alerting jurisdictions worldwide to the risks associated with the deficiencies in those AML/CFT regimes
- Co-chaired a working group that produced a comprehensive report describing what constitutes terrorist financing, including its sources, methods of movement, and uses. The report, which includes case examples from around the world, was adopted by the FATF in March 2008, and has been published on the FATF website, *FATF Terrorist Financing Report*
- Worked with interagency partners that contributed to FATF typology studies on: *The Money Laundering and Terrorist Financing Vulnerabilities of Commercial Websites and Internet Payment Systems*

The Department increased its collaboration with interagency partners and international counterparts to establish a comprehensive global system of AML/CFT

assessments through the FATF, the various FATF-Style Regional Bodies, the World Bank and IMF. Compliance with international AML/CFT standards is facilitated by auditing the regimes of FATF and member governments, which increased to over 175 countries from 150 compared to 2007.

These evaluation reports also identify deficiencies and ways to strengthen each country's AML/CFT policies and practices. In fiscal year 2008, TFFC achieved its target of assessing 12 countries that were evaluated through FATF. Adoption of the mutual evaluation by the FATF triggers a follow-up review, which establishes an avenue for TFFC to encourage additional measures to strengthen a country's AML/CFT policies and practices. For example, building on the feedback generated from an earlier evaluation, the United Arab Emirates implemented a set of AML/CFT regulatory reforms in June 2008 focusing on the area of customer due diligence.

Treasury is pursuing additional initiatives with international bodies to help identify systemic threats to the international financial system, focusing on policy development to protect the financial system from abuse. For example, TFFC has been working closely with the State Department on a series of targeted sanctions workshops with the European Union aimed at sharing best practices and educating the participants on how to implement an effective sanctions regime against terrorist financing. TFFC has increasingly refined the themes for the workshops to allow for in-depth discussion of specific aspects of targeted economic sanctions, and the most recent workshop in Brussels, in April 2008, focused on bringing together the lessons learned and findings of the entire workshop series, to develop a coordinated U.S.-European Union approach for addressing sanction issues in the future.

### Designated terrorist financiers

The Treasury Department continues to target terrorist financiers and facilitators. These efforts include exposing and disrupting terrorist-front charities—a conduit used by groups such as al-Qa'ida, Hamas, Palestinian Islamic Jihad and Hizballah to funnel funds and exploit charitable giving to advance terrorism. As of September 30, 2008 the



Department had designated 539 individuals and entities as terrorists, their financiers or facilitators since the implementation of the Executive Order in September, 2001. In fiscal year 2008, some key designations included:

- Iran's Islamic Revolutionary Guard Corps-Qods Force for providing material support to the Taliban and other terrorist organizations, and Iran's state-owned Bank Saderat as a terrorist financier. The Qods Force is the Iranian regime's primary instrument for providing lethal support to the Taliban. Bank Saderat, which has approximately 3,200 branch offices, has been used by the government of Iran to channel funds to terrorist organizations, including Hizballah and European Union designated terrorist groups Hamas, and Palestinian Islamic Jihad
- Four individuals that hold leadership positions in Lashkar-e-Tayyiba, a Pakistan-based terrorist group with links to Usama bin Ladin and the al-Qa'ida network
- Kuwait-based Revival of Islamic Heritage Society for providing financial and material support to al-Qa'ida and its affiliates, including Lashkar e-Tayyiba, Jemaah Islamiyah, and Al-Itihaad al-Islamiya
- Four leaders of al-Qa'ida in the Lands of the Islamic Maghreb, who carried out three attacks east of Algiers in June 2008, including a bombing near a train station that killed a French national

Designation programs often have an impact beyond their legal reach. Many banks, around the world, screen their customers and transactions against the U.S. list of designated entities and individuals. Information made public, in combination with designated actions, can have a substantial impact, creating a deterrent effect.

### Response by targets and their networks

In fiscal year 2008, OFAC took several actions to lift sanctions on individuals and entities who had changed their problematic behavior or connections. These actions exemplify the impact OFAC designations have on individuals or entities. In June 2008, 60 individuals were removed from OFAC's Specially Designated Nationals list

as a result of their severing ties with Colombia's notorious Cali drug cartel and assisting Colombian authorities. This action resulted from close cooperation with the Colombian government. OFAC also lifted sanctions on the China Great Wall Industry Corporation, a Chinese firm designated for providing material support to Iran's missile program. The Chinese firm implemented a rigorous and thorough compliance program to prevent any and all future dealings with Iran.

### Combating the proliferation of WMD: Iran

A primary focus of the Department has been addressing the multi-faceted threats posed by Iran. Treasury leadership, working with the Department of State, is implementing a strategy to combat this threat, and application of financial pressure to the Iranian regime consists of three inter-related initiatives:

- Developing and implementing targeted financial measures to combat Iran's proliferation and terrorism support activities
- Maximizing the impact of U.S. financial actions by securing international support
- Engaging in a strategic dialogue with the international private sector to explain the risks of doing business with Iran

In fiscal year 2008, 69 individuals and entities were designated under *Executive Order 13382* as WMD proliferators or their supporters. Since the implementation of the Executive Order in June 2005, over 110 individuals and entities have been designated under this authority. These designations have targeted financial institutions, front companies, military construction firms, transporters, and key personnel in Iran's missile and WMD programs.

In fiscal year 2008, some noteworthy designations included:

- Bank Melli, Iran's largest bank, was designated for providing services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the United Nations for their involvement in those programs. Bank Melli handled transactions for Bank Sepah, the Defense Industries

Organization, and the Shahid Hemmat Industrial Group. Bank Melli has provided a range of financial services on behalf of Iran's nuclear and missile industries, including opening letters of credit and maintaining accounts

- Bank Mellat was designated for providing bank services in support of Iran's nuclear entities, including the Atomic Energy Organization of Iran. Bank Mellat services and maintains this organization's accounts, mainly through its financial conduit, Novin Energy. Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program since approximately 2003
- The Islamic Republic of Iran Shipping Lines (IRISL), and 18 affiliated entities were designated for providing logistical services to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL). IRISL facilitates shipments of military-related cargo designated for MODAFL and its subordinates. IRISL has deliberately misled maritime authorities through the use of deception techniques, which were adopted to conceal the true nature of shipments ultimately destined for MODAFL. Furthermore, as international attention over Iran's WMD programs has increased, IRISL has pursued new strategies, allowing it the potential to evade future detection of military shipments
- Six Iranian military firms were designated for being owned or controlled by MODAFL and/or the Defense Industries Organization. These firms, which produce a variety of defense-related products, including electronics and communications equipment, aircraft, logistics systems, unmanned aerial vehicles, rocket and missile launchers, and weapons, act as procurement front companies for Iran's military

Over the past year and a half, senior leaders from TFI have met with finance ministry and central bank counterparts from around the world to discuss the importance of ensuring that the international financial system is not tainted by Iran's abuse. TFFC has led the effort to raise the issues of terrorist and proliferation finance bilaterally with international partners and bring these issues to the fore of international organizations and bodies. TFFC accomplished this through the FATF and the Proliferation

Security Initiative to ensure effective implementation of the financial provisions contained in the United Nations Security Council Resolutions related to Iran and proliferation finance. The FATF issued guidance in October 2007 to assist jurisdictions in implementing activity-based financial prohibitions contained in *United Nation Security Council Resolution 1737* relating to prevention of WMD proliferation in Iran. This guidance and earlier advisories has produced valuable results, all 34 members of the FATF have implemented additional measures against Iran.

These efforts have been accompanied by international actions which, in turn, reinforce the utility of these targeted financial measures. For example, the most recent *United Nations Security Council Resolution 1803*, adopted in March 2008, called upon its member states to exercise vigilance over their own financial institutions' activities with all financial institutions domiciled in Iran, including their branches and subsidiaries abroad. This provision made special mention of the risks posed by Bank Melli and Bank Saderat. The FATF issued a second statement on Iran in February 2008, sending a clear message to governments and financial institutions worldwide about the threat Iran poses to the international financial system. The actions of the United Nations and FATF were followed by the European Union, which froze the assets of Bank Melli, in June 2008, due to its linkages with Iran's nuclear and ballistic programs.

### Response by the private sector

Response by the private sector is a key factor when using targeted financial measures. Rather than defying compliance, or even trying to evade these measures, many members of the banking industry voluntarily go beyond their legal requirements for fear of handling illicit business. This is a result of corporate citizenship and the desire to protect their reputations. Positive, private sector voluntary actions amplify the effectiveness of government-imposed measures, deterring this type of behavior. For example:

- Many leading financial institutions have either scaled back dramatically or even terminated their Iran-related business entirely

- A number of other foreign banks, in Europe, China, and in the Middle East reportedly are refusing to issue new letters of credit to Iranian businesses, and the United Arab Emirates prohibited their banks from issuing letters of credit for businesses whose place of production is in Iran

When the private sector decides to cut off companies or individuals Treasury has targeted, it becomes an even greater reputational risk for others not to follow. The impact of voluntary implementation and compliance makes it even more palatable for governments to impose similar measures, thus creating a mutually-reinforcing cycle of public and private action.

The overall result has been exactly the type of government and private sector collaboration necessary to effectively combat WMD proliferators. In reaction to U.S. and multilateral actions, the world's leading financial institutions have largely stopped dealing with Iran, and especially Iranian banks, in any currency. This represents a substantial success in protecting the integrity of the financial system from Iranian illicit conduct while simultaneously providing leverage to support the multilateral effort to reach a negotiated solution on Iran's nuclear program. It also represents a comprehensive example of TFI utilizing all the tools at its disposal – outreach and policy consultation from TFFC, essential intelligence analysis and support from OIA, implementation of targeted financial measures by OFAC, and the efficient use of regulatory tools by FinCEN.

### Rogue nations

The Department intensified its pressure on Burma throughout fiscal year 2008. In September 2007, OFAC designated senior officials from the Government of Burma in response to the violent suppression of democratic protests, and in October 2007, an additional 11 Burmese officials were designated to increase U.S. sanctions against their military regime. Family members or regime leaders were targeted including the financial network of Burmese tycoon Tay Za, an arms dealer with close ties to the military regime. In July 2008, ten companies that were owned or controlled by the Government of Burma or its officials were designated, including companies involved in

the gem-mining, timber, and banking industries. Not long after this took place, Burma was struck by Cyclone Nargis. The Department responded by issuing general licenses to facilitate the flow of funds for humanitarian assistance to the Burmese. An additional general license authorized the transfer of funds, unlimited in amount, for personal remittances to or from Burma.

### Civil penalties and enforcement

The imposition of civil monetary penalties is an important function of enforcing sanctions, and OFAC's Civil Penalties division is responsible for all actions under the economic and trade sanctions programs administered and enforced by OFAC. A large percentage of penalty cases are based upon the illegal trade of goods and services. In fiscal year 2008, OFAC collected civil penalty in 94 cases, totaling \$4,923,342. One country in particular, Iran, accounted for 30 percent of these cases because it has a relatively large economy and appetite for U.S. goods and services. The emphasis on Iran is a practical result of the number of violations investigated, but is also consistent with its priority as a national security threat. In fiscal year 2008, 233 open civil penalty cases were resolved within the statute of limitations period. OFAC also issued new *Economic Sanctions Enforcement Guidelines*, which will guide its enforcement response to apparent violations of the sanctions programs that it administers and enforces, and which will allow it to implement enhanced civil penalties.

### Expert support to policymakers

OIA is responsible for providing timely and focused intelligence on economic, political, and security issues to Treasury senior leaders and staff. Areas of high priority include the Committee on Foreign Investment in the United States, Critical Infrastructure Protection, and the U.S.-China SED. In fiscal year 2008 the focus was on enhancing the level of support to the senior leadership for National Security Council (NSC) meetings and key bilateral engagements, while expanding liaison and advisory services to the Department.

In fiscal year 2008, OIA's Intelligence Operations Center completed its transformation into a fully functioning 24/7

facility, to provide timely, accurate, and relevant intelligence to support the following:

- Daily Read Books for the Department's senior leadership
- Treasury's participation in the NSC policymaking process
- Policymaker's engagement with counterparts abroad
- Identification and dissemination of priority intelligence to Treasury decision-makers

OIA established a dedicated Requirements Staff and significantly improved its ability to drive collection of intelligence in response to Departmental requirements—particularly on key terrorist finance, proliferation finance, and economic and financial stability issues. In addition, OIA created “Treasury Intelligence Online”—a secure community of interest on the Intelligence Community's Top Secret-level computer network, allowing the dissemination of its written analytic products to a wider audience in the U.S. Government.

OIA began conducting an annual customer satisfaction survey in fiscal year 2007 to measure its impact in meeting Treasury performance goals and outcomes. The survey is sent after the conclusion of each fiscal year. Survey results for fiscal year 2007 showed that 83 percent of customers were strongly satisfied with the overall accuracy, timeliness, and relevance of OIA's counterterrorism-related products. In fiscal year 2008 the survey was refined to measure the overall level of customer satisfaction with the accuracy, timeliness, and relevance of finished intelligence products and intelligence support on the full-range of issues. At the time of publication, fiscal year 2008 results were not available.

## Conclusion

The Department met or exceeded 100 percent of its target levels to achieve this outcome. The current performance measures only partially describe how this outcome is accomplished. The current measures tend to be more operational and output oriented, necessitating a reevaluation of the methodology used to assess the impact of activities.

## Moving Forward

TFFC will develop and implement strategies aimed at combating the financial networks that support terrorism, proliferation, and financial crime, while continuing to increase capacity of key activities that provide tools to law enforcement and national security agencies. TFFC will build upon the current targeted financial measures to financially isolate Iran and Syria, state sponsors of terrorism, and to disrupt and dismantle the financial networks that support WMD proliferation. TFFC will continue to advance discussions within the FATF on how the existing AML/CFT international standards should be supplemented, amended, or applied to enhance their effectiveness.

OFAC plans to determine its capacity requirements to effectively investigate terrorist networks and state sponsored terrorism, proliferators of WMDs, foreign narcotics trafficking organizations, and other sanction targets. Licensing, compliance, and enforcement capacity will be analyzed based on the level of Executive Orders, designations of terrorists, WMD proliferators, and other national security threats.

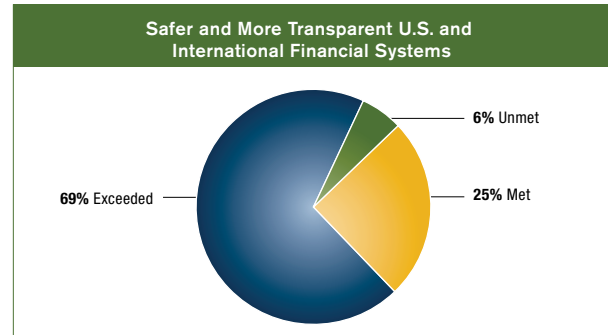
OIA will utilize a comprehensive approach on financial intelligence to respond to the growing demand from Treasury and U.S. Government policymakers for intelligence on the global financial network. The global financial network encompasses the financial underpinnings of national security threats from adversaries financial vulnerabilities, the impact of U.S. targeted financial measures, and threats to international financial stability. The Global Finance Initiative will implement this approach by enhancing OIA's capabilities regarding requirements and collection support, analysis, dissemination and information sharing, policy and strategic planning, and mission support. OIA's Counterintelligence and Security Initiative will augment the Department's ability to detect and thwart threats to Treasury personnel, programs, and information. This initiative will consist of a phased program designed to prevent espionage, as well as identify and neutralize or mitigate threats from compromise.

While quantitative measures, such as assets seized or blocked could be used to measure TFI's effectiveness, it only provides a partial view of the entire organization. The newly developed composite measure outlines the functions and roles of each office showing the unique impact of TFI. Additionally, there will need to be a stronger process for validating and justifying each component from an external assessor, to confirm the results. The expectation is that this measure will evolve and change over time as the factors that determine impact are assessed and evaluated. In fiscal year 2009, TFI will obtain additional information and data, and reach a consensus through the Department and the Office of Management and Budget (OMB) on the focus area components and how each will be rated, ultimately rolling up to a composite measure score for TFI as an integrated organization.

## SAFER AND MORE TRANSPARENT U.S. AND INTERNATIONAL FINANCIAL SYSTEMS

Based on the performance results, Treasury was successful in achieving this outcome in fiscal year 2008.

### *Fiscal Year 2008 Results*



### *Summary of Actual Trends for the Prior Four Years*

Trend	Symbol	Count	%
Favorable upward trend	▲	6	38%
Favorable downward trend	▼	4	25%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	1	6%
No change in trend, no effect	▶	2	13%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	3	19%
<b>TOTAL</b>		<b>16</b>	<b>100%</b>
Discontinued		1	



### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Average time to process enforcement matters (in years)	FinCEN	1	0.7%	130%	Exceeded	1	►	▼
Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable	FinCEN	90%	94%	104%	Exceeded	90%	►	►
The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable	FinCEN	79%	83%	105%	Exceeded	80%	▲	▲
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule	FinCEN	5.2%	2.5%	152%	Exceeded	5.2%	►	▼
Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system	FinCEN	Baseline	64%	100%	Met	66%	B	B
Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements	FinCEN	Baseline	41%	100%	Met	45%	B	B
Percentage of customers satisfied with the BSA E-Filing	FinCEN	90%	93%	103%	Exceeded	90%	►	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

conducting studies to provide feedback to stakeholders, and initiating enforcement actions when appropriate.

In fiscal year 2008, FinCEN:

- Published guidance related to a variety of industries, including the AML program rule for dealers in precious metals, stones or jewels
- Drafted a rule on Chapter 10 of the Code of Federal Regulations, providing clarity in regulations and making it easier for the industry to understand
- Published three strategic assessments describing findings from Suspicious Activity Reports (SAR) to provide feedback to stakeholders
- Issued a notice of proposed rulemaking that would simplify the existing currency transaction reporting exemption requirements

### Compliance with the BSA

FinCEN continued to increase its engagement in activities that monitor BSA compliance by financial institutions examined by state and federal regulators through enter-

## Analysis of Performance Results

### Regulatory Accomplishments

FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. The BSA requires financial institutions to file reports on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other illicit finance. These activities include improving the consistency in the application of BSA regulations, providing guidance on regulatory expectations,

ing into an MOU to exchange information. In 2008, FinCEN executed three additional agreements, concluding that 41 percent of federal and state regulatory agencies have entered an MOU or information sharing agreement. *The number of federal and state regulatory agencies with which FinCEN has conducted memoranda of understanding/information sharing agreements* was discontinued in fiscal year 2008 and replaced with the percentage measure because the methodology better reflects the impact of this activity. FinCEN surveyed its compliance MOU holders to determine the impact of the information exchanged, and established a 64 percent baseline of respondents rating the information exchange as valuable; this will improve BSA consistency and compliance. The Inspector General identified compliance with the BSA as a *Management Challenge* again in fiscal year 2008.

FinCEN strives to be responsive to the needs of financial institutions and collaborates to increase their understanding of the BSA. FinCEN's goal is to maintain a 90 percent satisfaction level of its Regulatory Resource Center customers, it exceeded this target with 94 percent of customers rating the guidance as "understandable."

FinCEN works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including the imposition of civil money penalties when appropriate. In fiscal year 2008, FinCEN surpassed its target for the *average time to process enforcement matters* in one year with an average time of 0.7 percent; this was due to actively managing the casework.

FinCEN established the measure, *percentage of bank examinations conducted by Federal Banking Agencies indicating a systemic anti-money laundering program failure* in fiscal year 2007. This measure is an indicator of trends that identify FinCEN's regulatory compliance and examination efforts on the banking industry. As the percentage fluctuates, FinCEN recognizes that laxity in examinations or increased vigilance in compliance could trigger a downward trend in performance, and sets its indicator levels accordingly. In fiscal year 2008, the percentage of banking institutions cited for program failures during examinations was significantly below the 5.2 percent indicator level, only 2.5 percent were cited. This is primarily

attributable to greater consistency among bank regulators in citing instances of program failures.

### Analytic efforts in support of detection and deterrence of money laundering

BSA filings are utilized by law enforcement agencies, both domestically and through exchanges with international counterparts to identify, detect, and deter money laundering. FinCEN's analytic efforts focus on developing products and services to help law enforcement agencies enhance detection and deterrence of money laundering, terrorism financing, and other illicit activity. FinCEN continued its support to these agencies by focusing on actionable analysis targeted at high-priority money laundering and terrorist financing targets. Additionally, FinCEN published two comprehensive technical reference guides for law enforcement officials.

FinCEN also serves as the nation's financial intelligence unit (FIU), which is responsible for collecting, analyzing, disseminating, and exchanging information pursuant to a country's AML/CFT regulations. This includes exchange of information with counterpart foreign FIUs in 108 countries that are Egmont Group members. In fiscal year 2008, FinCEN worked with its Egmont Group partners to develop actionable intelligence concerning illicit money flows, and provided technical assistance and training to a number of Egmont candidates and members. For example, FinCEN increased its collaboration with the Mexican FIU, and provided analytical training, on-site visits, supported technology updates, and joint analytical projects. FinCEN is currently working with a Canadian FIU to analyze cross border currency flows, and the Spanish FIU to begin analyzing the flow of Euros into and out of the U.S. and conduct strategic analysis of money laundering typologies. The percentage of customers finding FinCEN's analytical reports highly valuable is measured to show how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. FinCEN exceeded its target of 79 percent with 83 percent of its customers finding the analytical reports highly valuable.

## Accessibility of BSA information

In fiscal year 2008, FinCEN began the process to retire magnetic media filing, maximized BSA E-Filing capabilities and BSA data validation, and implemented data quality measures to improve its management of BSA data and increase coordination and communication with its federal stakeholders. The information and technology used to facilitate analysis are at the core of FinCEN's mission to deter and detect criminal activity, and to safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. FinCEN surveys the users of the BSA E-Filing system to determine the overall satisfaction level and identify where improvements are needed. The percentage of customers satisfied with the BSA E-Filing was 93 percent, although this was a one percent decrease compared to last year, customer satisfaction has been consistent with the target set at 90 percent.

FinCEN focused its efforts related to efficient management, safeguarding, and use of BSA information by improving the overall information infrastructure and enhancing information technology management capabilities. In May 2008, FinCEN implemented a new public website that improved navigation features and allows customers to find information easily. The newly developed site created a more flexible and sustainable structure.

FinCEN conducted a thorough review of its BSA data security program and updated many components of the BSA access program. In fiscal year 2008, FinCEN increased law enforcement access to BSA information through an initiative that significantly increased the number of MOUs with U.S. Attorney's Offices.

## Conclusion

The performance measures for fiscal year 2008 showed positive results with the exception of one measure, where the target was not met. In total, 69 percent of targets were exceeded, 25 percent were met, and six percent were not met.

Law enforcement, regulatory, and international users indicate that FinCEN's services are valuable. While it is difficult to formalize performance measures and show impact, the performance measures used provide a reasonable indication of FinCEN's progress in achieving its outcome.

The three key measures, *percentage of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial systems, the percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable, and the percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable*, provide a reasonable indication of FinCEN's impact. However, the other performance measures are more output oriented, and the link to achieving the outcome is not as distinct.

## Moving Forward

FinCEN's future plans are to improve its ability to strengthen financial system security and enhance U.S. national security to achieve the Department's outcome. FinCEN will continue to reach out to the largest fifteen depository institutions in the U.S. and expand this to include additional financial service industries. In order to learn more about their AML programs FinCEN will develop a strategy for more consistent application of the BSA across industries. FinCEN will develop additional memoranda of understanding to exchange information with state regulators, focusing primarily on insurance commissioners. FinCEN will also conduct and publish additional studies promoting greater awareness of emerging money laundering trends and vulnerabilities, while also providing greater clarity to regulated industries regarding their requirements under the BSA.

FinCEN will improve and expand collaborative relationships with investigative and intelligence agencies to exploit SARs to develop proactive evaluations. FinCEN will implement a process to capture and measure analytic product relevance to support law enforcement. FinCEN also plans to increase analyst exchanges and joint analytic activities with partner FIUs, and expand the complexity of FinCEN products provided to international partners, while also increasing outreach to U.S. law enforcement and regulatory agencies to educate them on the benefits provided by the global network of FIUs.

FinCEN will continue information technology modernization. FinCEN has partnered with the IRS to improve IT processes, and reached an agreement on the governance structure and is charting a path forward.

# STRATEGIC GOAL: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

## STRATEGIC OBJECTIVE:

### Enabled and Effective Treasury Department

The Department of the Treasury strives to maintain public trust and confidence through exemplary leadership by creating a culture of excellence, integrity, and teamwork. The Department is dedicated to serving the public interest and focused on delivering results that align with its strategic objectives. Management enables this through a strong institution that is citizen-centered, focused on achieving results, and transparent and accountable to the American people. Strategies to achieve this objective are aligning and managing resources, investing in people and technology, and conducting independent audits and investigations. The Treasury Department is committed to planning and assessing performance, reviewing results, and continuous improvement.

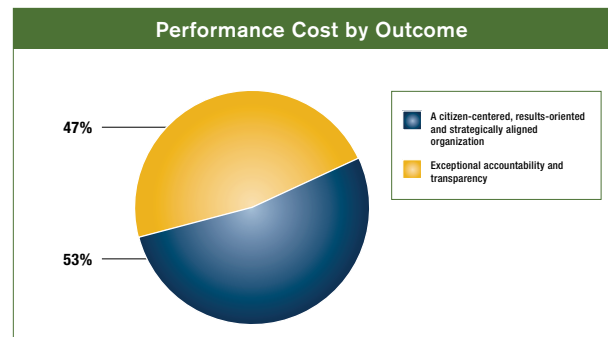
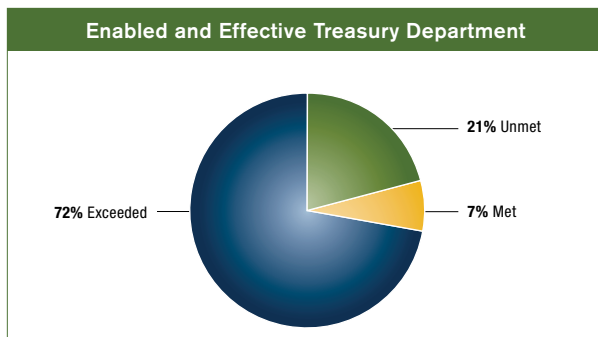
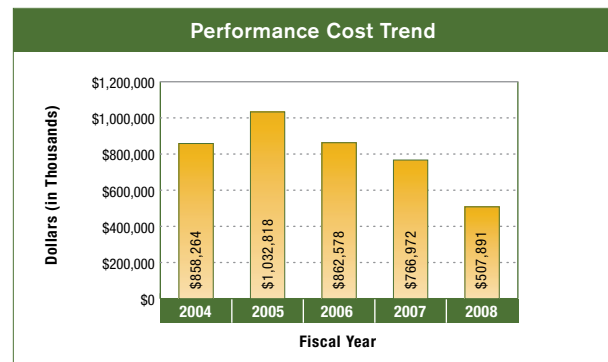
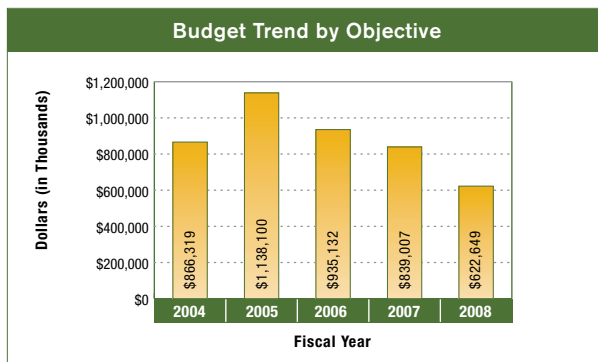
The bureaus and offices responsible for achievement of this objective are:

- The Treasury Inspector General for Tax Administration
- Office of the Treasury Inspector General
- Office of the Treasury Assistant Secretary for Management & Chief Financial Officer (ASM/CFO, including Finance, Budget, Planning, Human Capital, Information Technology, Procurement, Privacy, and Operations)

The outcomes associated with this objective are:

- A citizen-centered, results oriented and strategically aligned organization
- Exceptional accountability and transparency

There are no program evaluations for Treasury management functions.



## A CITIZEN-CENTERED, RESULTS ORIENTED AND STRATEGICALLY ALIGNED ORGANIZATION

Based on performance results, Treasury succeeded in achieving this outcome for fiscal year 2008.

### *Fiscal Year 2008 Results*



### *Summary of Actual Trends for the Prior Four Years*

Trend	Symbol	Count	%
Favorable upward trend	▲	3	38%
Favorable downward trend	▼	2	25%
Unfavorable upward trend	▲	2	25%
Unfavorable downward trend	▼	1	13%
No change in trend, no effect	►	0	0%
No change in trend, favorable effect	►	0	0%
No change in trend, unfavorable effect	►	0	0%
Baseline	B	0	0%
<b>TOTAL</b>		<b>8</b>	<b>100%</b>
Discontinued		3	

Much of management involves staff functions such as finance, procurement, planning, budgeting, human capital, and information technology. These functions critically support bureaus and offices that serve U.S. citizens. Many of Treasury's performance measures are service-oriented, such as:

- Customer Service Representative (CSR) Level of Service (IRS)
- Customer Accuracy - Customer Accounts (IRS)
- Customer Accuracy - Tax Law Phones (IRS)

- National Revenue Center customer satisfaction survey results (TTB)
- Average days to process an original permit (TTB)
- Percentage of retail customer service transactions completed within 12 business days (BPD)
- Increase in the percentage of eligible areas served by a CDFI (CDFI)
- Percentage of customers satisfied with WebCBRS and secure outreach (FinCEN)
- Percentage of customers satisfied with the BSA E-Filing (FinCEN)
- Percentage of FinCEN's Regulatory Resource Center Customers rating the guidance received as understandable (FinCEN)
- The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable (FinCEN)
- The percentage of private industry or financial institution customers finding FinCEN's Suspicious Activity Review (SAR) products valuable (FinCEN)

## Analysis of Performance Results

### Human Capital

During fiscal year 2008, the Office of the Deputy Assistant Secretary of Human Resources / Chief Human Capital Officer (DASHR/CHCO) began using two performance measures to assess how well employee expectations align with Treasury goals, executive compensation aligns with organization performance, and talent is managed at the Department. The two measures include:

- Results-Oriented Performance Culture System: Evaluates attraction, development, and retention of a high-performance, talented, diverse workforce
- Talent Management System: Evaluates the extent to which Treasury is recognized as a highly desirable employer of choice, offering employees the opportunity to reach their full potential



The first measure *Results-Oriented Performance Culture System* includes the following components:

Component Measure Definition	FY 2008 Actual
Relationship of Senior Executive Service performance ratings and awards, to accomplishment of the agency's strategic goals (measures strategic alignment)	100%
Degree of linkage between all employees' performance appraisal plans and agency mission, goals, and outcomes (measures strategic alignment)	38%
Percent of valid favorable responses from employees in the Federal Human Capital Survey (FHCS) administered by Office of Personnel Management, regarding an agency's achievement of a performance culture (measures results orientation)	54%

The second measure *Talent Management System* includes the following components:

Component Measure Definition	FY 2008 Actual
Competency Gaps Closed in Mission Critical Occupations – the difference between competencies needed by the organization and competencies possessed by employees in the Mission Critical Occupations (measures both results orientation and strategic alignment)	97%
Talent Management Index – a score based on items from the FHCS (measures results orientation)	59%
Employee Job Satisfaction Index - a score based on items from the FHCS	67%

The degree of linkage between employee plans and agency goals was 38 percent. This was largely due to issues associated with the IRS performance management system. The IRS Office of Human Capital is taking appropriate action to address these factors.

This is the first year for these measures. The Department considers these metrics reasonable initial proxies for measuring the human capital element of this outcome. During fiscal year 2008, DASHR/CHCO revised and issued a *Human Capital Strategic Plan for Fiscal Years 2008-2013* that outlines a methodology to recruit, develop and retain a diverse and talented workforce. Additional measures need to be developed to determine the effectiveness the strategies articulated in the plan. DASHR/CHCO also implemented its first human capital operating plan to

ensure that steady progress is made towards the goals laid out in the Human Capital Strategic Plan. In combination with the FHCS, these efforts will provide a comprehensive assessment of human capital performance.

Treasury strives to resolve workplace issues in the most fair and constructive fashion. The Department encourages use of the Alternative Dispute Resolution process. Actual performance for the measure *Percent of complainant informally contacting Equal Employment Opportunity (EEO) (for the purpose of seeking counseling or filing a complaint) who participate in the Alternative Dispute Resolution process* was 45 percent, exceeding the target of 30 percent. This represented a 55 percent improvement over fiscal year 2007 actual performance. In light of this performance, 2009 targets should be revisited.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the Alternative Dispute Resolution process.	DO	30%	45%	150%	Exceeded	30%	▲	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

In 2008 the Department's Office of Civil Rights and Diversity (OCD) continued its efforts to ensure the Treasury EEO complaint program is managed fairly and effectively. During fiscal Year 2008, the Department issued 316 final agency decisions on complaints of discrimination filed by applicants and employees. Investigations were completed on 407 complaints, taking an average number of 256 days of processing time, showing five percent (improvement/decline) in processing time over fiscal year 2007. OCD works with the Treasury bureaus to implement methodologies for dispute prevention and early resolution. Alternative Dispute Resolution (ADR) processes also provide for early resolution of EEO complaints. In fiscal year 2008, the Department improved its percentage in ADR participation by 14 percent over 2007.

### Information Technology

The Office of the Chief Information Officer (OCIO) provides leadership to the Department and its bureaus in the areas of information and technology management, including development of the Department's IT strategy, management of IT investments, and leadership of key

technology initiatives. OCIO facilitates and coordinates the implementation and maintenance of a wide array of applications and networks Department-wide.

In order to help safeguard personal identification information, Treasury has strengthened its networks and applications by:

- Encrypting 99.8 percent of the Department's 61,002 laptops and 99.7 percent of Treasury's 5,946 personal digital assistants
- Testing 98 percent of the system contingency plans, certifying and accrediting 97 percent of Treasury's information systems, and implementing two-factor authentication in the Department's remote system access services
- Strengthening security policies and implementing enhanced safeguards to reduce security exposure to Internet-based threats

Other notable accomplishments included:

- A solid Treasury FISMA Portfolio of IT Systems, collaboratively refined from 738 to 540 in fiscal year 2007 and 504 in fiscal year 2008
- Certification and Accreditation rate of 94 percent fiscal year 2007 and 97 percent fiscal year 2008 for the Treasury Inventory of unclassified systems
- Annual Test of IT Security Controls for 93 percent fiscal year 2007 and 100 percent fiscal year 2008 of Treasury Inventory
- Contingency Plans developed and tested for 93 percent fiscal year 2007 and 98 percent fiscal year 2008 of Treasury Inventory

- National Institute of Standards and Technology compliant Configuration Management Policy in effect for all of Treasury
- IT Security Awareness Training provided to 97 percent fiscal year 2007 and 98 percent fiscal year 2008 of all Treasury employees and contractors
- IT Security Specialty Training provided to 98 percent fiscal year 2007 and 98 percent fiscal year 2008 of all Treasury employees in IT Security roles
- An effective process to monitor progress of all Plans of Action and Milestones recognized as effective by OMB
- A fully deployed and tested back-up capability for the Department's wide-area network

### Strategic Sourcing

The Strategic Sourcing program is charged with developing and implementing improvements in acquisition value across the Department. There were three areas of focus in fiscal year 2008: Multi-Function Devices, IT Software, and IT Hardware (Personal Computer's and x86 Based Servers). Successful contracting reduced the cost for these initiatives from \$86.5 million to \$63 million, with the majority of savings occurring in the IRS.

### Performance Management

The Office of Strategic Planning and Performance Management reviews all departmental-level performance measures continually for the strength of the relationship between the desired outcome and what is being measured. These assessments, over time, close the gaps of describing benefits for the people that Treasury serves. Efforts to rationalize measures began in 2005, when approximately 60 percent of measures at the department level were eliminated. Action since the release of the 2007 Treasury Strategic Plan have focused on aligning outcome measures with strategic goals, or in several cases, developing entirely new measures. An example of this was the traction and impact measure that was developed in 2008 for the Office of Technical Assistance in International Affairs.

While progress in measure development and alignment with outcomes is necessary, a tool was needed to provide a

corporate, or agency view of overall performance. During 2008, the Department began prototyping a strategic performance scorecard. The scorecard is designed to measure Treasury's performance at achieving strategic outcomes on both an annual and a quarterly basis.

The scorecard is designed to "grade" the performance results for each strategic outcome, based on a percentage of actual performance to target, and on the direction of both actual and target trends over time. The intent of the scorecard is to provide Treasury senior leadership with greater insight into performance across the Department, enable corporate management, and meet the requirements of *Executive Order 13450, Improving Government Program Performance*. The scorecard employs a balanced approach, including information on stakeholder levels of satisfaction, process performance, human capital performance, and both financial and non-financial results. Balanced scorecards are widely used in both the public and private sectors to manage organizational performance and improve strategic management. When used in combination with modern business analytics tools, they provide a powerful way to provide leadership with increased insight into performance.

The Department's vision is to finalize the prototype and implement it on a business analytics tool before the end of fiscal year 2009. The prototype as designed also accommodates a Competitiveness Assessment Process (CAP) that the Department plans to establish. The CAP incorporates a comparison of Department performance against relevant performance benchmarks from the public and private sectors. This process will help the Department improve performance target-setting and goal-setting, and provide impetus that drives the Department into a more deeply-rooted pattern of continuous improvement. Using similar data across multiple performance reporting venues will improve the efficiency and consistency of Treasury performance reporting.

#### *Other accomplishments included:*

Each year, the Office of Performance Management and Human Capital work together to provide senior leadership with a Senior Executive Service Organizational Assessment. The intent is to ensure correlation between

organizational performance and executive compensation. This process maintains certification for Treasury with the Office of Personnel Management for executive compensation, and has been cited as a best practice by the OMB.

Treasury revised its [performance page](#) on its public website to better meet the needs of the public and offer more transparency.

Conclusion

The measures for the citizen-centered, results oriented and strategically aligned organization outcome exceeded their fiscal year 2008 targets. However, the Department acknowledges that work remains to be completed on a suite of new metrics that more directly measure how well this outcome was achieved across all major areas such as human capital, information technology, and financial management.

Moving Forward

In fiscal year 2009, DASHR will continue to focus on strategies for recruiting, developing and retaining a high quality and diverse workforce, ensuring leadership effectiveness through leadership development and succession planning, enhancing human capital workforce metrics, developing human capital action plans, and improving human capital management through feedback from management accountability reviews. Further work on the EEO Audit Program will continue, with audits to be performed on at least two bureaus. The audits will examine the full scope of bureau EEO programs and will make recommendations to improve and strengthen EEO activities. Bureaus will also be assessed for progress in meeting their established disability hiring goals.

Treasury is in process of revising its IT strategic plan to identify the future operating environment and its associated challenges, ranging from cyber security threats to limited resource availability. Strategies will be developed to prioritize Treasury IT spending, leverage existing resources and mitigate vulnerabilities.

Performance Management will fully develop the performance management scorecard and implement it in fiscal year 2009.

EXCEPTIONAL ACCOUNTABILITY AND TRANSPARENCY

Achieving and maintaining exemplary accountability and transparency is critical for the Treasury Department as the primary financial agency for the U.S. Government. The Department follows proper internal controls that serve to deter and eliminate fraud, waste, and abuse, while increasing efficiency and effectiveness. For fiscal year 2008, Treasury generally met or exceeded its performance targets in providing accountability and transparency.

Fiscal Year 2008 Results



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	33%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	3	50%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	1	17%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		6	100%
Discontinued		0	

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of, material weaknesses (Significant Management Problems Identified by Government Accountability Office (GAO), the Inspectors General and/or Bureaus) closed	DO	3	2	67%	Unmet	0	▼	▼
Number of completed audit products	OIG	56	64	114%	Exceeded	60	▲	▲
Percent of statutory audits completed by the required date	OIG	100%	100%	100%	Met	100%	►	►
Percentage of audit products delivered when promised to stakeholders	TIGTA	60%	65%	108%	Exceeded	65%	▲	▼
Percentage of recommendations made that have been implemented	TIGTA	80%	85%	106%	Exceeded	83%	▲	▼
Percentage of results from investigative activities	TIGTA	76%	78%	103%	Exceeded	78%	▲	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

*Closed* did not meet expectations, closing two material weaknesses compared to a target of three. However, 2008 performance was not as strong as 2007 when there were no material weaknesses.

The Department of the Treasury has two offices of Inspectors General that provide independent oversight of the Department's activities.

The Treasury Inspector General for Tax Administration (TIGTA) audits and investigates the Internal Revenue Service (IRS) to 1) ensure accountability for more than \$2 trillion in tax revenues and 2) that IRS is managed fairly and effectively. Investigative work includes the areas of employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. During fiscal year 2008, TIGTA met or exceeded 100 percent of its performance measure targets. TIGTA actions potentially impacted approximately 5.7 million taxpayers' accounts and achieved the following year-over-year results:

- Issued 179 audit reports in 2008, as compared with 180 in 2007
- Produced financial accomplishments of \$2.4 billion as a result of audits and investigations; this compares with \$3.5 billion in financial accomplishments in 2007, a decrease of 31.4 percent

### Analysis of Performance Results

Performance for measures assessing accountability and transparency exceeded target levels for 66 percent of measures, met target levels for 17 percent of measures, and did not meet 17 percent of measures for fiscal year 2008. Eighty-three percent of performance targets showed trend improvement and 17 percent showed trend decline. For performance actual results, 33 percent of results showed trend improvement and 67 percent showed trend decline. These results indicate that these programs generally succeeded in achieving their performance goals.

On a Department-wide basis, the measure *Number of Material Weaknesses (Significant Management Problems Identified by GAO, the Inspectors General and/or bureaus)*



- Cases of employee misconduct in 2008 at 1,569 cases dropped from 2007 cases of 1,663, a decrease of 94 cases or 5.7 percent
- Percentage of investigations generating positive results dropped from 81 percent in 2007 to 78 percent in 2008, a reduction of 3.7 percent
- Cases accepted for criminal prosecution dropped from 206 cases in 2007 to 171 cases in 2008, a notable decrease of 17 percent
- TIGTA opened 434 unauthorized access cases in 2008 versus 521 in 2007, a decrease of 16.7 percent
- Unauthorized access cases closed decreased from 621 cases in 2007 to 491 cases in 2008, a decrease of 20.9 percent
- Personnel actions against IRS employees decreased from 594 actions in 2007 to 471 actions in 2008, a difference of 20.7 percent

Changes from fiscal year 2007 to fiscal year 2008 are the result of the shifting nature of TIGTA's investigative inventory. As the external fraud affecting IRS operations has increased, TIGTA has refocused its investigative activity on external crimes impacting federal tax administration.

The Office of Inspector General (OIG) is responsible for the audit and investigation of all non-IRS Treasury programs and operations. OIG auditors conduct financial, performance, and information technology audits. These audits are intended to save taxpayer dollars, improve the effectiveness and efficiency of Treasury programs and operations, help prevent waste, and detect fraud and abuse in Treasury programs and operations. OIG investigators conduct a variety of investigations, covering financial crimes, corruption, other crimes, and employee misconduct. Fiscal year 2008 results included:

- Completed 100 percent of its statutory audits on time, the same as 2007
- Completed 64 audit products, the same as 2007
- Referred 93 investigations for criminal or civil prosecution, or for administrative action as compared with 188 cases in 2007. However, 70 of the 188

cases were one-time referrals from a GAO public transit subsidy investigation. Adjusting for this outlier, the number of referrals made in fiscal year 2008 is within 89 percent of the target. A management vacancy and a new emphasis on closing older cases accounted for the small shortfall in reaching the target.

- Reviewed 2,588 complaints for potential investigation or inquiry
- Opened 84 new investigations
- Achieved administrative corrective action on 23 investigation cases

The Office of the Deputy Assistant Secretary for Privacy and Treasury Records (PTR) was established in fiscal year 2008, and serves the American public and the Treasury community by setting the standard for the protection, access, and appropriate disclosure of Treasury's information assets. PTR also maintains a Treasury Orders and Directives program that maintains current Departmental policies, activities, and procedures.

The PTR strengthens the Department's privacy programs by combining key privacy functions and elevating the privacy program to directly report to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The realignment of information privacy, civil liberties, records management, library, and disclosure functions into one office promotes an integrated approach to information management and protection across the Department. PTR developed fiscal year 2008 goals and objectives that support PTR core values of service, quality, excellence, and teamwork. The combined efforts of the PTR team ensure that the Treasury community has the knowledge resources needed to serve the public, while strengthening the Department's compliance with privacy and disclosure requirements, safeguarding personally identifiable information, and promoting process transparency, accountability, and timeliness.

## Conclusion

For the six performance measures used to gauge the success in achieving this outcome, five were either met or exceeded and one was unmet.

## Moving Forward

In fiscal year 2009, TIGTA anticipates major challenges in adapting to the increasingly complex and potentially high-risk issues associated with IRS operations. Some of these issues include: detection and investigation of fraud and electronic crime, procurement activities, taxpayer privacy, increased requests for IRS program reviews from Congress and other IRS stakeholders, investigating crimes involving Electronic Tax Administration and potential security breaches in a growing number of IRS modernized systems. TIGTA plans to continue:

- Performing audit work that balances statutory audit coverage and discretionary audit work
- Addressing major management challenges such as security of the IRS, taxpayer protections and rights, and providing quality taxpayer service
- Monitoring the IRS's modernization efforts to identify problems the IRS may encounter as it implements new programs and information systems
- Investigating complaints of wrongdoing that could potentially impact the integrity of tax administration, including threats to IRS electronic systems and information
- Conducting investigations which concentrate on employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration

As the IRS continues to modernize and automate its operations, TIGTA auditors and investigators must be appropriately trained to operate in this environment. TIGTA initiated the following actions to address these challenges:

- Created the Office of Inspection and Evaluations to provide TIGTA additional flexibility, capacity and capability to improve tax administration and promote good government. This function was created and staffed entirely by realigning existing resources

- Implemented a bureau-wide electronic learning management system that: 1) assesses current skill levels, and 2) identifies critical skills needed for all major TIGTA occupations. Based on results, TIGTA will develop a strategic recruitment program to fill critical vacancies with the skills needed to carry out increasingly complex oversight activities
- Established TIGTA's first *Senior Executive Service Candidate Development Plan*. The objective of the plan is to identify the actions necessary to promote a greater understanding of the mission and culture of the federal government, and to train outstanding leaders and prepare them for the Senior Executive Service

OIG is developing two new performance measures to gauge the performance of the Investigations budget activity.

OIG will continue to focus its resources on conducting mandatory audit work, including MLR of failed financial institutions. However, due to the demands that the MLR work has placed on OIG resources, OIG expects to perform fewer audits during fiscal year 2009 on other important Treasury programs such as combating terrorist financing and money laundering. Fraud investigations at failed banks are expected to increase over the next three years, and OIG will need to adjust its priorities and resources to accommodate these demands.

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